



Australian Strategic Materials Ltd

ABN 90 168 368 401

Financial Report - 30 June 2022



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Australian Strategic Materials Ltd
Corporate directory
30 June 2022

Directors

I J Gandel
D G Woodall (resigned 15 July 2022)
N P Earner
D I Chalmers (resigned 1 March 2022)
G M Smith
K J Gleeson (appointed 1 February 2022)

Joint Company secretaries

Dennis Wilkins
Julie Jones (appointed 2 August 2021)

Registered office & Principal place of
business

Level 4, 66 Kings Park Road West Perth WA 6005
Telephone: 61 8 9200 1681 Facsimile: 61 8 9200 1682

Share register

Advanced Share Registry Limited 110 Stirling Highway, Nedlands WA 6009

Auditor

PricewaterhouseCoopers
Brookfield Place, 125 St Georges Terrace, Perth WA 6000

Stock exchange listing

Australian Strategic Materials Ltd shares are listed on the Australian Securities Exchange (ASX
code: ASM)
Admitted to the Official List of ASX on 29 July 2020

Website

<http://www.asm-au.com>

Australian Strategic Materials Ltd
Directors' report
30 June 2022

The Directors present their report, together with the financial statements, on the consolidated entity (referred to hereafter as the 'Consolidated entity' or 'the Group', or 'ASM') consisting of Australian Strategic Materials Ltd (referred to hereafter as the 'Company' or 'parent entity') and the entities it controlled at the end of, or during, the year ended 30 June 2022.

Directors

The following persons were Directors of Australian Strategic Materials Ltd during the whole of the financial year and up to the date of this report, unless otherwise stated:

I J Gandel
D G Woodall (resigned 15 July 2022)
N P Earner
D I Chalmers (resigned 1 March 2022)
G M Smith
K J Gleeson (appointed 1 February 2022)

Principal activities

Australian Strategic Materials (ASM) is an emerging producer of rare earths, critical minerals and high-tech metals. These materials are vital inputs for an array of applications across advanced manufacturing, new growth, and sustainable energy industries. ASM has its cornerstone rare earths and critical minerals project in Dubbo, NSW, and its flagship high-tech metals plant in Ochang, South Korea. The Group's principal activities in the year were:

- Completion of construction of the Korean Metals Plant, with permit to operate received and Phase 1 equipment installation complete. Commenced commissioning of the Phase 1 Neodymium and Copper Titanium furnaces, with first ingots cast. Equipment and process commissioning continues in the second half of calendar year 2022.
- Completion of the Optimisation Study and Enhanced Project Addendum (Optimisation Work) for the Dubbo Project which provides a foundation for Front End Engineering Design (FEED) and is a key component of obtaining financing for the Dubbo project.
- Completion of share placement to KCF Energy Co. Ltd for USD\$15,000,000 (\$8.90 per share).
- The signing of the Joint Statement of Cooperation on Critical Metals with the Korean Mine Rehabilitation and Resource Corporation (KOMIR), to enable the supply of critical minerals and metals into Korea.
- Awarding the conditional contract to provide Engineering, Procurement and Construction Definition (EPCD) work for the Dubbo Project to Hyundai Engineering Co., Ltd.
- Execution of debt facilities agreement with the Korea Development Bank for facilities up to \$24,600,000 (KRW 22,000,000,000) for operating and capital expenditure at the Korean Metals Plant.

Dividends

There were no dividends paid, recommended nor declared during the current or previous financial year.

Review of financial conditions

The loss for the Consolidated entity after providing for income tax and non-controlling interest amounted to \$24,275,000 (30 June 2021: \$783,000).

The Group had cash outflows from operating and investing activities of \$71,126,000 (30 June 2021: \$14,506,000) for the year ended 30 June 2022. At 30 June 2022, the Group had cash on hand of \$60,220,000 (30 June 2021: \$93,324,000). These funds will be used for the construction of the Korean Metals Plant, Dubbo Project FEED, exploration obligations and associated corporate expenses.

Going Concern

Based on the Group's cash flow forecast, the Group may require additional funding to enable the Group to continue to realise its strategic business activities and meet all associated corporate, exploration, construction and development commitments over the period.

As a result of the above, there is a material uncertainty that may cast significant doubt on the entity's ability to continue as a going concern and therefore, the entity may be unable to realise its assets and discharge its liabilities in the normal course of business.

The Directors are satisfied that there are reasonable grounds to believe that the Group will be able to continue to meet its debts as and when they fall due and that it is appropriate for the financial statements to be prepared on a going concern basis.

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The Directors have based this determination on the demonstrated ability of the Group to raise capital, the intention to raise new capital and their assessment of the probability of progressing project financing.

The attached annual report for the year ended 30 June 2022 contains an independent auditor's report which highlights the existence of a material uncertainty that may cast significant doubt about the Group's ability to continue as a going concern. For further information, refer to note 1 to the financial statements, together with the auditor's report.

Review of operations

Korea

The ground-breaking for the Korean Metals Plant (KMP) took place in July 2021 after signing the Memorandum of Understanding with Chungcheongbuk-do province and acquiring the KMP site in Ochang Foreign Investment Zone in the prior quarter. The construction of six buildings on the KMP site, including total refurbishment of the existing main factory, was completed by end of Q1 2022, with the plant registration certificate received on 7th April 2022.

Phase 1 equipment installation and commissioning for Nd metal, NdFeB strip alloy and CuTi alloy ingot progressed throughout the year despite significant disruptions from COVID-19. The Deputy Prime Minister of South Korea, Mr Hong Nam-ki, visited the site in November 2022 as commissioning commenced and the first Nd metal ingot was cast.

Phase 1 equipment installation was completed in Q4 2022 with commissioning and ramp up planned to continue over the second half of calendar year 2022. To celebrate this achievement, ASM held the KMP official opening ceremony in May 2022 with key representatives of the Australian and Korean governments and business community.

During the year, ASM received a cash grant from the South Korean government of \$6,737,000. The purpose of the cash grant received was to support the development of the Korean Metals Plant. Further in June 2022, ASM executed debt facilities with Korea Development Bank for up to \$24,600,000 to fund operating and capital expenditure.

Dubbo

In December 2021, ASM completed the Optimisation Study and Enhanced Project Addendum (Optimisation Work) for the Dubbo Project. The Optimisation Work simplified the Dubbo Project process flow sheet and incorporates new operating strategies that will reduce operating costs and improve the Environmental, Social & Governance (ESG) performance. These strategies now include increasing the brine concentrator capacity (reducing water consumption), refurbishment of the railway line (which simplifies project logistics and will provide opportunities for local jobs) and development of a chlor-alkali plant (which reduces the cost of reagents and their handling and transportation). These strategies facilitate ESG benefits by reducing water consumption, reducing the handling and quantum of process chemicals, and reducing the number of trucks on local roads.

In June 2022, ASM awarded Hyundai Engineering Co., Ltd (HEC) the contract to provide Engineering, Procurements and Construction Definition work for the Dubbo Project. The EPCD includes an Association for the Advancement of Cost Engineering standardised estimate (AACE Class 2 capital cost estimate), an operating cost estimate, a detailed project schedule, major project plans, and early-stage engineering documentation. Completion of the EPCD will allow HEC to produce an open book cost estimate for the Dubbo Project. This will form the basis of an EPC offer by HEC to deliver the Dubbo Project.

The Dubbo Project has been optimised to produce neodymium, praseodymium, zirconium, hafnium, dysprosium, terbium and niobium oxides that can all be refined into high-purity alloys, metals and powders at ASM's metals plants.

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Corporate

Corporate activities during the period ended 30 June 2022 include:

- ASM's appointment of the Australian and New Zealand Banking Group Limited (ANZ) as the financial advisor for the debt financing of the Dubbo Project. ANZ has strong ties with Korean export credit agencies and financial institutions.
- Continued efforts to advance negotiations to secure long-term sales agreements for the Korean Metals Plant and Dubbo production.
- Progression of discussions with suppliers of key raw materials to obtain binding and committed long-term supply agreements.
- Completion of a share placement with KCF Energy Co. Ltd for USD 15,000,000 at an issue price of AUD \$8.90 per share.

COVID-19

During the year ended 30 June 2022, delays caused by the ongoing impacts of COVID-19 and supply chain disruptions impacted the installation of equipment at the Korean Metals Plant. Installation of equipment is now complete with NdFeB commissioning commencing in the second half of calendar year 2022. Throughout the year, ASM continued to observe COVID-19 management protocols across our office and site locations in Australia and South Korea. These protocols are in line with our commitment to ensure safe operations for our staff and contractors.

As at the date these financial statements were authorised, management was not aware of any material adverse effects on the financial statements as a result of coronavirus.

Significant changes in the state of affairs

There were no significant changes in the state of affairs of the Group during the financial year.

Matters subsequent to the end of the financial year

During July 2022, Rowena Smith was appointed Chief Executive Officer and David Woodall resigned from his position as Managing Director.

On 19 July 2022, David Woodall held 3,000,000 performance rights, of these performance rights 2,000,000 were forfeited and 1,000,000 vested through the issue of ordinary shares in the Company.

On 8 September 2022, the Company announced it signed a binding agreement for the sale of neodymium praseodymium metal produced at its Korean Metals Plant with Korean company NS World Co., Ltd. The agreement is for the sale and delivery of 10 tonnes of neodymium praseodymium metal ingot from September 2022 to December 2022.

No other matter or circumstance has arisen since 30 June 2022 that has significantly affected, or may significantly affect the Consolidated entity's operations, the results of those operations, or the Consolidated entity's state of affairs in future financial years.

Likely developments and expected results of operations

The Consolidated Entity intends to continue evaluation activities in relation to the Dubbo Project and progress the development of the Company's first commercial metals plant in South Korea in line with details provided in the Review of Operations.

Environmental regulation

The Group is subject to significant environmental regulation and monitoring requirements in respect of its natural resource's exploration and development activities.

The Group aspires to the highest standards of environmental management and insists its entire staff and contractors maintain that standard. A significant environmental incident is considered to be one that causes a major impact or impacts to land biodiversity, ecosystem services, water resources or air, with effects lasting greater than one year. The Directors' are not aware of any significant breaches of these requirements during the period.

Indemnity and insurance of auditor

The Company has agreed to indemnify its auditors, PricewaterhouseCoopers, to the extent permitted by law, against any claim by a third party arising from the Company's breach of their agreement. The indemnity stipulates that the Company will meet the full amount of any such liabilities including a reasonable amount of legal costs.

Auditor

PricewaterhouseCoopers continues in office in accordance with section 327 of the *Corporations Act 2001*.

Information on Directors

Ian Jeffrey Gandel - Non-Executive Chairman

LLB, BEc, FCPA, FAICD

Appointed Non-Executive Chairman 18 March 2014

Mr Gandel is a successful Melbourne based businessman with extensive experience in retail management and retail property. He has been a director of the Gandel Retail Trust and has had an involvement in the construction and leasing of Gandel shopping centres. He has previously been involved in the Priceline retail chain and was the CEO of a chain of serviced offices.

Mr Gandel has been an investor in the mining industry since 1994. Mr Gandel is currently a substantial holder in a number of publicly listed Australian companies and, through his private investment vehicles, now holds and explores tenements in his own right in Western Australia. Mr Gandel is currently Non-Executive Chairman of Alliance Resources Ltd (appointed as a director on 15 October 2003 and in June 2016 was appointed Non-Executive Chairman). He is Non-Executive Chairman of Alkane Resources Ltd. He is also the Non-Executive Chairman of Octagonal Resources Ltd (appointed 10 November 2010).

Nicholas Paul Earner - Non-Executive Director

BEng (hons)

Appointed Non-Executive Director 1 September 2017

Mr Earner is a chemical engineer and graduate of University of Queensland with over 25 years' experience in technical and operational optimisation and management, and has held a number of executive roles in mining and processing.

Mr Earner joined the Alkane group as Chief Operations Officer in August 2013, with responsibility for the safe and efficient management of Alkane Resources Ltd's operations at Tomingley and the Dubbo Project. Under his supervision, the successful development of Tomingley transitioned to profitable and efficient operations. His guidance also drove engineering and metallurgical aspects of the Dubbo Project, prior to its transition into the separately listed Australia Strategic Materials Ltd.

Prior to his appointment as Alkane Resources Ltd's Chief Operations Officer in August 2013 he had roles at Straits Resources Ltd, Rio Tinto Coal Australia's Mount Thorley Warkworth coal mine and BHP/WMC Olympic Dam copper-uranium-gold operations.

Mr Earner is the Managing Director of Alkane Resources Ltd.

Gavin Murray Smith - Non-Executive Director

B.Com, MBA, MAICD

Appointed Non-Executive Director 12 December 2017

Mr Smith is an accomplished senior executive and Non-Executive Director within multinational business environments. He has more than 35 years' experience in information technology, business development, and general management in a wide range of industries and sectors. As Non-Executive Director of Bosch Subsidiaries and Joint Ventures in Australia and New Zealand, Mr Smith has led the restructuring and transformation of the local Bosch subsidiary. Mr Smith is member of the industry advisory boards of the CSIRO and the Victorian Skills Authority, and is a Non-Executive Director of Alkane Resources Ltd.

Kerry Jo-Anne Gleeson - Non-Executive Director

LLB (Hons), FAICD

Appointed Non-Executive Director 1 February 2022

Ms Gleeson is an experienced independent Non-Executive Director, Chair and Committee Member with over two decades of experience as a director, senior executive and board advisor of various ASX listed companies. Ms Gleeson has worked nationally and internationally across broad and complex industry sectors, including mining and resources, industrial and agri-chemicals, manufacturing, transport and distribution and international education. Ms Gleeson is a qualified lawyer in both the UK and Australia, and spent 15 years in private practice, including as a partner of an English law firm, before emigrating to Melbourne and joining Blake Dawson Waldron (now Ashurst).

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Ms Gleeson's other current roles include Non-Executive Director of St Barbara Limited, New Century Resources Ltd and Chrysos Corporation Ltd. She is also the Chair of Trinity College at the University of Melbourne.

Key Management Personnel

Dennis Wilkins - Joint Company Secretary

B.Bus, ACIS, AICD

Appointed Company Secretary 29 March 2018.

Mr Wilkins is the founder and principal of DWCorporate Pty Ltd, a corporate advisory firm servicing the natural resources industry.

Since 1994 he has been a Director of, and involved in the executive management of, several publicly listed resource companies with operations in Australia, PNG, Scandinavia and Africa. Since July 2001 Mr Wilkins has been running DWCorporate Pty Ltd, where he advises on the formation of, and capital raising for, emerging companies in the Australian resources sector.

Mr Wilkins is currently a Director of Key Petroleum Limited.

Julie Jones - Joint Company Secretary & General Counsel

LLB (Law)

Appointed General Counsel and joint Company Secretary 2 August 2021.

Ms Jones has more than 18 years of legal, commercial, strategic and corporate governance experience, underpinned by a strong background in mining and manufacturing.

Prior to joining ASM, Ms Jones' held the role of General Counsel and Company Secretary for Matrix Composites and Engineering Ltd. Her other past roles include General Counsel and Director of People at the Chamber of Commerce and Industry WA, and Corporate Counsel at Iluka Resources and Solicitor at the State Solicitor's Office.

Rowena Smith – Chief Executive Officer

B.Com, MAICD

Appointed Chief Executive Officer 6 July 2022. Prior to her appointment, Ms Smith held the role of Chief Operating Officer appointed 5 July 2021.

Ms Smith has over 30 years' experience in the mining and minerals processing sector holding senior roles in strategy, operations and commercial.

Prior to joining ASM, she was Chief Sustainability Officer at South32, accountable for sustainability strategy, risk management and HSE business processes. Her other past roles include Vice President Supply at South32, General Manager of BHP's Kwinana Nickel Refinery, and operational leadership roles within Rio Tinto's aluminium smelting business.

Ms Smith is currently a member of the Australian Institute of Company Directors (AICD).

Jason Clifton – Chief Financial Officer

B.Com, MAICD, FCA

Appointed Chief Financial Officer 12 July 2021.

Mr Clifton has over 20 years' of financial, commercial, capital and strategic experience.

Prior to joining ASM, he was Senior Vice President Financial Service at Woodside Energy Ltd, where he was responsible for treasury, tax, group finance and business finance. His other past roles include Chief Financial Officer of Bankwest and Chief Financial Officer of Westpac New Zealand.

Mr Clifton is a Fellow of the Institute of Chartered Accounts and a Fellow of the Financial Services Institute of Australia.

Meetings of Directors

The number of meetings of the Company's Board of Directors ('the Board') and of each Board committee held during the year ended 30 June 2022, and the number of meetings attended by each Director were:

	Full Board		Nomination Committee	Risk Committee	Audit Committee	Remuneration Committee
	Attended	Held	Attended	Attended	Attended	Attended
I J Gandel	17	17	1	2	3	3
D G Woodall ¹	17	17	1	2	-	-
D I Chalmers ²	7	7	1	1	3	3
G M Smith	17	17	1	2	3	3
N P Earner	15	17	1	2	3	3
K J Gleeson ³	10	11	-	1	-	-

Held: represents the number of meetings held during the time the Director held office or was a member of the relevant committee.

¹ D Woodall resigned as Managing Director effective 15 July 2022.

² D I Chalmers resigned as a director on 1 March 2022 and attended all meetings held prior to resignation.

³ K J Gleeson was appointed as a director on 1 February 2022 and attended all meetings held from appointment.

Remuneration report (audited)

The remuneration report details the key management personnel remuneration arrangements for the Consolidated entity, in accordance with the requirements of the *Corporations Act 2001* and its Regulations.

The remuneration report is set out under the following main headings:

- Principles used to determine the nature and amount of remuneration
- Details of remuneration of executive KMPs
- Additional disclosures relating to key management personnel

Remuneration governance

The Company has established a Remuneration Committee to assist the Board in fulfilling its corporate governance responsibilities with respect to remuneration by reviewing and making appropriate recommendations to the Board on:

- the overall remuneration strategy and framework for the Company;
- the operation of the incentive plans which apply to the executive team, including the appropriateness of key performance indicators and performance hurdles; and
- the assessment of performance and remuneration of the executive directors, non-executive directors and other KMP.

The Remuneration Committee is a committee of the Board and at the date of this report the members were non-executive directors and included G M Smith (Chair), I J Gandel and K J Gleeson.

Their objective is to ensure that remuneration policies and structures are fair, competitive and aligned with the long term interests of the Company and its shareholders.

The Company's annual Corporate Governance Statement provides further information on the role of this committee, and the full statement is available at URL: www.asm-au.com.au/company/governance.

Statutory performance indicators

The Company aims to align executive remuneration to the Company's strategic and business objectives and the creation of shareholder wealth. The table below shows measures of the Group's financial performance for the current year as required by the *Corporations Act 2001*. However, these are not necessarily consistent with the specific measures in determining the variable amounts of remuneration to be awarded to KMP. As a consequence, there may not always be a direct correlation between the statutory key performance measures and the variable remuneration rewarded.

Consolidated
2022 2021

Loss for the year attributable to owners (\$'000)	(24,275.00)	(783.00)
Basic loss per share (cents)	(17.00)	(1.00)
Share price at period end (\$)	3.45	7.80

Principles used to determine the nature and amount of remuneration

The objective of the Consolidated entity's executive reward framework is to ensure reward for performance is competitive and appropriate for the results delivered. The framework aligns executive reward with the achievement of strategic objectives and the creation of value for shareholders, and it is considered to conform to the market best practice for the delivery of reward. The Board of Directors ('the Board') ensures that executive reward satisfies the following key criteria for good reward governance practices:

- are competitive and reasonable, enabling the Company to attract and retain key talent while building a diverse, sustainable and high-achieving workforce;
- are aligned to the Company's strategic and business objectives and the creation of shareholder value;
- promote a high performance culture regarding that leadership at all levels is a critical element in this regard;
- are transparent; and
- are acceptable to shareholders.

The Remuneration Committee is responsible for determining and reviewing remuneration arrangements for its directors and executives. The performance of the Consolidated entity depends on the quality of its directors and executives. The remuneration philosophy is to attract, motivate and retain high performance and high quality personnel.

In consultation with external remuneration consultants (refer to the section 'Use of remuneration consultants' below), the Remuneration Committee has structured an executive remuneration framework that is market competitive and complementary to the reward strategy of the Consolidated entity.

Non-Executive Directors remuneration

Fees and payments to Non-Executive Directors reflect the demands and responsibilities of their role. Non-Executive Directors' (NEDs) fees and payments are reviewed annually by the Remuneration Committee. The Remuneration Committee may, from time to time, receive advice from independent remuneration consultants to ensure non-executive directors' fees and payments are appropriate and in line with the market. The Chairman's fees are determined independently of the fees of other Non-Executive Directors based on comparative roles in the external market. The Chairman is not present at any discussions relating to the determination of his own remuneration. Non-Executive Directors do not receive share options or other incentives.

ASX listing rules require the aggregate Non-Executive Directors' remuneration be determined periodically by a general meeting. In accordance with ASM's Constitution, the remuneration of the non-executive directors of ASM in each financial year will not exceed the maximum aggregate amount determined by ASM shareholders in general meeting from time to time. The maximum aggregate amount is currently \$950,000 (as approved at the AGM dated 30 November 2021), inclusive of superannuation and exclusive of reimbursement of expenses.

This remuneration may be divided among the ASM NEDs in such proportions as they decide. The maximum aggregate remuneration amount has been set so as to enable the appointment of additional ASM NEDs if required.

	Board ¹ \$A	Audit Committee \$A	Risk Committee \$A	Remuneration Committee \$A	Nominations Committee \$A
Chairman of the Board ²	190,000	-	-	-	-
Non-Executive Directors ³	103,000	-	-	-	-
Committee Chair	-	14,400	14,400	15,000	15,000
Committee Member	-	8,500	8,500	7,500	7,500

¹ NEDs receive Board and Committee fees inclusive of superannuation.

² Inclusive of committee work.

³ Board fees paid to NEDs other than Chairman.

Executive remuneration

The Consolidated entity aims to reward executives based on their position and responsibility, with a level and mix of remuneration which has both fixed and variable components.

The executive remuneration and reward framework has four components:

- base pay and non-monetary benefits
- short-term performance incentives
- share-based payments
- other remuneration such as pension, superannuation and long service leave in line applicable jurisdictions requirements.

The combination of these comprises the executive's total remuneration.

Fixed Remuneration

The components of executives' fixed remuneration are determined individually and may include cash remuneration, pension, superannuation, motor vehicle and parking benefits and reimbursement of telephone expenses. The executives' remuneration is reviewed on an annual basis by the Remuneration Committee.

In determining the remuneration package, the Remuneration Committee reviews the individual's remuneration with the use of market data for positions with comparable companies. Where appropriate, the package is adjusted so as to align with market trends and ensure continued remuneration competitiveness. In conducting a comparative analysis, the Company's expected performance for the year is considered in the context of the Company's capacity to fund remuneration budgets.

Executives may receive their fixed remuneration in the form of cash or other fringe benefits (for example motor vehicle benefits) where it does not create any additional costs to the Consolidated entity and provides additional value to the executive.

Variable Remuneration

Short-term Incentives

Executives may receive variable remuneration in the form of short-term incentives ('STI') of up to 30% of their annual salary package. STI payments are based on the Board's assessment of the executives' performance towards achieving key Company objectives over the relevant period. Annually the Remuneration Committee reviews the performance of each executive prior to or after the reporting date. The Remuneration Committee then determines the amount of STI to be allocated to each executive with approval from the Board. The total potential STI available for award is at the Board's discretion. STI's are made through the issue of performance rights after the reporting period. Where an executive resigns during or after the relevant financial year, it remains at the discretion of the Board as to whether any of the STI is payable for the relevant financial year.

The focus of the 2021/22 financial year was on the Company's progress towards the further development of the Korean Metals Plant and the Dubbo project.

2021/2022 STI

The 2021/22 STI targets and outcomes are summarised below:

An amount of 81,148 performance rights were granted to KMP's. Vesting occurs up until the end of the measurement period, being 30 June 2022, with a nil exercise price, if the following performance conditions are met:

- 20% of the performance rights will vest if the Korean Metals plant saleable production rate is 1,254 tpa
- 20% of the performance rights will vest if an offtake is secured for 75% of the KMP saleable product
- 10% of the performance rights will vest if the ESG performance is viewed as 'excellent' by the Board
- 10% of the performance rights will vest if the Executives personal performance is viewed as 'performing' by the Board
- for the Chief Operating Officer 10% of the performance rights will vest if the Korea Metals plant capex is less than \$17m
- for the Chief Operating Officer 20% of the performance rights will vest if the Dubbo FEED contract commences prior to end Feb 2022
- for the Chief Financial Officer 20% of the performance rights will vest if an offtake is secured for 80% of the Dubbo saleable product by 30 June 2022

Further, the Board has discretion to abandon the incentive opportunity should the Company's overall performance be substantially lower than expectations.

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The KPI's were selected to encourage and support business growth and deliver ASM's mine to metals strategy.

The Board exercised its discretion to abandon the incentive program and as a result all 81,148 performance rights were cancelled on 8 August 2022.

Long-term Incentives

The long-term incentives ('LTI') include performance rights awarded to executives. Executives may participate in the Executive Incentive Plan to receive variable remuneration of up to 30% of their annual salary package. Shares are awarded to executives over a period of three years based on long-term incentive measures.

2021/2022 LTI

The 2021/22 LTI targets and outcomes are summarised below:

An amount of 81,148 performance rights were granted to KMP's. Vesting occurs up until the end of the measurement period, being 30 June 2022, with a nil exercise price, if the following performance conditions are met:

- 50% of the performance rights will vest if the 30 June 2022 Total Metal Production of Saleable Quantity is 545t
- 50% of the performance rights will vest if the percentage total of Dubbo Financing committed and delivered is 100% at 30 June 2022

The KPI's were selected to encourage and support business growth and deliver ASM's mine to metals strategy.

Further, the Board has discretion to abandon the incentive opportunity should the Company's overall performance be substantially lower than expectations.

The Board exercised its discretion to abandon the incentive program and as a result all 81,148 performance rights were cancelled on 8 August 2022.

Sign on rights

LTI's were issued to the Chief Operating Officer and Chief Financial Officer as sign-on incentives for the commencement of their employment.

The Chief Financial Officer received 125,248 options with 50% vesting after 3 years and 50% vesting after 5 years. The options had a service condition only and there were no performance conditions associated with these options.

The Chief Operating Officer received 54,714 performance rights with 50% vesting after 3 years and 50% vesting after 5 years. The performance had a service condition only and there were no performance conditions associated with these options.

Assessing performance and claw-back of remuneration

While there is no formal malus/clawback policy, the Board has ultimate discretion to adjust the STI and LTI outcomes upwards or downwards (including zero), in exception circumstances, where the STI and LTI generated outcomes are inconsistent with the Company's performance or resulted in misalignment with Shareholders (eg. fatality, financial misstatement, misconduct, reputational damage, etc.).

Use of remuneration consultants

During the financial year ended 30 June 2022, the Consolidated entity, through the Remuneration Committee, engaged Godfrey Remuneration Group Pty Limited and BDO Reward (WA) Pty Ltd, remuneration consultants, to provide details of market remuneration practices for specific key management personnel (KMP) roles in the market capitalisation ranges relevant to the Company and to review its existing remuneration policies and provide recommendations on structuring STI and LTI programs. This has resulted in STI and LTI's in the form of performance rights being implemented. Godfrey Remuneration Group Pty Limited was paid \$3,500 for these services and BDO Reward (WA) Pty Ltd was paid \$27,500.

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An agreed set of protocols were put in place to ensure that the remuneration recommendations would be free from undue influence from key management personnel. These protocols include requiring that the consultant not communicate with affected key management personnel without a member of the Remuneration Committee being present, and that the consultant not provide any information relating to the outcome of the engagement with the affected key management personnel. The Board is also required to make inquiries of the consultant's processes at the conclusion of the engagement to ensure that they are satisfied that any recommendations made have been free from undue influence. The Board is satisfied that these protocols were followed and as such there was no undue influence.

Voting and comments made at the Company's 30 June 2021 Annual General Meeting ('AGM')

At the 2021 AGM, 99% of the votes received supported the adoption of the remuneration report for the year ended 30 June 2021. The Company did not receive any specific feedback at the AGM regarding its remuneration practices.

Details of remuneration of executive KMPs

Amounts of remuneration

Details of the remuneration of key management personnel of the Consolidated entity are set out in the following tables.

Since the end of the reporting period, the following changes to KMP are as follows:

- R Smith was appointed as Chief Executive Officer on 6 July 2022.
- D Woodall resigned as Managing Director on 15 July 2022.

There have been no other changes to Directors or KMP since the end of the reporting period.

KMP	Total Fixed Remuneration	Position	Date Commenced	Contract Duration	Termination notice period - Company	Termination notice period - Executive	Termination Payment
David Woodall ¹	\$600,000	Managing Director	10 February 2020	Ongoing	3 months	3 months	If terminated by ASM - 3 months payment in addition to termination notice by Company
Frank Moon ²	\$388,000	President Asia	1 June 2021	Ongoing	3 months	3 months	If terminated by ASM - 3 months payment in addition to termination notice by Company
Rowena Smith ³	\$500,000	Chief Operating Officer	5 July 2021	Ongoing	3 months	3 months	If terminated by ASM - 3 months payment in addition to termination notice by Company
Jason Clifton	\$500,000	Chief Financial Officer	12 July 2021	Ongoing	3 months	3 months	If terminated by ASM - 3 months payment in addition to termination notice by Company

¹ David Woodall resigned as Managing Director effective 15 July 2022.

² Frank Moon's total fixed remuneration is KRW 333,200,000 and converted at the foreign exchange rate on 1 June 2021 (\$388,000).

³ Rowena Smith was appointed as Chief Executive Officer effective 6 July 2022.

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2022	Cash salary and fees \$	Non-monetary benefits \$	Annual and long service provision \$	Post-employment benefits ⁵ \$	Performance Rights \$	Total \$
<i>Non-Executive Directors</i>						
I J Gandel	172,727	-	-	17,273	-	190,000
G M Smith	146,800	-	-	-	-	146,800
N P Earner	115,909	-	-	11,591	-	127,500
K J Gleeson ¹	42,917	-	-	4,292	-	47,209
D I Chalmers ²	75,530	-	-	7,553	-	83,083
D Woodall ³	576,431	6,976	61,995	23,570	659,597	1,328,569
<i>Other KMP</i>						
R Smith ⁴	473,378	2,303	42,518	23,570	90,928	632,697
J Clifton	460,347	3,901	37,798	23,570	125,975	651,591
F Moon	354,111	65,485	-	3,234	-	422,830
Total	2,418,150	78,665	142,311	114,653	876,500	3,630,279

1 K J Gleeson was appointed as a director effective 1 February 2022.

2 D I Chalmers resigned as a director effective 1 March 2022.

3 D Woodall resigned as Managing Director effective 15 July 2022.

4 R Smith was appointed as Chief Executive Officer effective 6 July 2022.

5 Post-employment benefits are provided through superannuation contributions and national pension scheme.

2021	Cash salary and fees \$	Post-employment benefits ⁵ \$	Annual and long service provision ¹ \$	Performance Rights ² \$	Total \$
<i>Non-Executive Directors:</i>					
I J Gandel	112,508	10,688	-	-	123,196
G M Smith	85,900	-	-	-	85,900
D I Chalmers	67,213	6,386	-	-	73,599
N P Earner	71,094	6,754	-	-	77,848
<i>Executive Directors:</i>					
D G Woodall	452,637	20,442	54,643	661,409	1,189,131
<i>Other Key Management Personnel:</i>					
F Moon ³	425,980	277	-	-	426,257
A MacDonald ⁴	263,239	14,941	(30,485)	-	247,695
	1,478,571	59,488	24,158	661,409	2,223,626

1 The amounts disclosed in this column represent the movements in the associated provisions. They may be negative where a KMP has taken more leave than accrued during the year.

2 Performance rights have been granted and valued, however vesting is subject to performance hurdles.

3 F Moon was paid through Soon Hyun Huh, a company in which he has a controlling interest. From 1 June 2021, F Moon was employed directly by the Group.

4 Resigned 12 March 2021.

5 Post-employment benefits are provided through superannuation contributions and national pension scheme.

Australian Strategic Materials Ltd
Directors' report
30 June 2022

The proportion of remuneration linked to performance and the fixed proportion are as follows:

Name	Fixed remuneration		At risk - LTI	
	2022	2021	2022	2021
<i>Non-Executive Directors:</i>				
I J Gandel	100%	100%	-	-
G Smith	100%	100%	-	-
N Earner	100%	100%	-	-
K J Gleeson	100%	-	-	-
D I Chalmers	100%	100%	-	-
<i>Executive Directors:</i>				
D Woodall	51%	44%	49%	56%
<i>Other Key Management Personnel:</i>				
R Smith	86%	-	14%	-
J Clifton	81%	-	19%	-
F Moon	100%	100%	-	-

Details of Performance Rights and Options of KMP are as follows:

	Number	Performance period start date	Grant date	Fair value at grant date \$	Total Fair value at grant date ²	Vesting period	Vesting date	Valuation method
D Woodall ¹	1,800,000	10/02/2020	19/05/2020	0.59	1,062,000	3 years	13/10/2023	Monte Carlo
D Woodall ¹	1,200,000	10/02/2020	19/05/2020	1.14	1,368,000	3 years	13/10/2023	Monte Carlo
R Smith	54,714	5/07/2021	22/06/2021	6.40	352,090	50% 3 years 50% 5 years	5/07/2024 5/07/2026	Black-Scholes Black-Scholes
R Smith ²	22,210	5/07/2021	28/02/2022	8.14	180,789	1 year	30/06/2022	Black-Scholes
R Smith ²	22,210	5/07/2021	28/02/2022	8.14	180,789	1 year	30/06/2022	Black-Scholes
J Clifton	125,248	12/07/2021	16/06/2021	3.90	488,467	50% 3 years 50% 5 years	12/07/2024 12/07/2026	Monte Carlo Monte Carlo
J Clifton ²	20,520	12/07/2021	25/03/2022	8.13	166,828	1 year	30/06/2022	Black-Scholes
J Clifton ²	20,520	12/07/2021	25/03/2022	8.13	166,828	1 year	30/06/2022	Black-Scholes

¹ D Woodall resigned as Managing Director effective 15 July 2022. Of the 3,000,000 performance rights, 2,000,000 performance rights were forfeited and 1,000,000 vested and were issued on 19 July 2022.

² The performance rights were determined to have a 0% probability of vesting at grant date and at 30 June 2022 and no share-based payments expense was recognised during FY22. These performance rights were cancelled on 8 August 2022.

For David Woodall's performance rights targets as per below:

<u>Absolute total shareholder return</u>	<u>% Performance rights vesting</u>
Final share price <150% of starting share price	Nil
Final share price >= 150% and less than 200% of starting share price	33.33%
Final share price >=200% and less than 300% of starting share price	66.67%
Final share price >= 300% of starting share price	100%

The performance rights (1,200,000 performance rights) that are milestone based have the performance metrics provided in the table below.

Australian Strategic Materials Ltd
Directors' report
30 June 2022

<u>Performance metrics</u>	<u>Weighting</u>	<u>Vested</u>	<u>Performance period</u>
In the event a strategic partner organised by ASM buys >15% of ASM/Project	25%	0%	Performance period ends 30 July 2023
In the event off-take agreement >40% of project revenue is signed	25%	0%	Performance period ends 30 July 2023
In the event if debt >40% of project capital is signed	25%	0%	Performance period ends 30 July 2023
In the event if a Korean metals plant is successfully commissioned on a positive cash flow basis	25%	0%	Performance period ends 30 July 2023

Additional disclosures relating to key management personnel

Shareholding

The number of shares in the Company held during the financial year by each Director and other members of key management personnel of the Consolidated entity, including their personally related parties, is set out below:

	<u>Balance at the start of the year</u>	<u>Received as part of remuneration</u>	<u>Additions</u>	<u>Disposals/ other</u>	<u>Balance at the end of the year</u>
<i>Directors</i>					
I J Gandel	31,584,110	-	-	-	31,584,110
G M Smith	71,117	-	-	-	71,117
N P Earner	725,499	-	-	(575,499)	150,000
D I Chalmers ¹	1,218,833	-	-	(122,484)	1,096,349
K J Gleeson	-	-	-	-	-
D Woodall ²	7,500	-	-	-	7,500
	-	-	-	-	-
<i>Other key management personnel</i>					
R Smith	-	-	-	-	-
J Clifton	-	-	-	-	-
F Moon	-	-	-	-	-
	<u>33,607,059</u>	<u>-</u>	<u>-</u>	<u>(697,983)</u>	<u>32,909,076</u>

¹ These were the number of shares held by D I Chalmers when he resigned from the Board on 1 March 2022.

² These were the numbers of shares held by D Woodall when he resigned from the Board on 15 July 2022.

Performance rights and Options holdings

The number of performance rights and options over ordinary shares in the Company held during the financial year by each Director and other members of key management personnel of the Consolidated entity, including their personally related parties, for the year ended 30 June 2022 is set out below:

	<u>Balance at the start of the year</u>	<u>Granted</u>	<u>Vested</u>	<u>Expired/ forfeited/ other</u>	<u>Balance at the end of the year</u>
<i>Performance rights and Options over ordinary shares</i>					
D Woodall ¹	3,000,000	-	-	-	3,000,000
R Smith	-	99,434	-	-	99,434
J Clifton	-	166,288	-	-	166,288
	<u>3,000,000</u>	<u>265,422</u>	<u>-</u>	<u>-</u>	<u>3,265,722</u>

¹ D Woodall resigned as Managing Director effective 15 July 2022. Of the 3,000,000 performance rights, 2,000,000 performance rights were forfeited and 1,000,000 vested and were issued on 19 July 2022.

Australian Strategic Materials Ltd
Directors' report
30 June 2022

The following table lists the key variables used in the valuation of each performance rights and options granted to key management personnel during the year ended 30 June 2022:

Grant date	Expiry date	Share price at grant date \$	Exercise price	Expected volatility	Dividend yield	Risk-free interest rate	Fair value at grant date \$
22/06/2021	05/07/2024	6.40	-	70.00%	-	1.09%	6.40
16/06/2021	12/07/2024	6.21	\$6.38	70.00%	-	1.09%	3.90
22/06/2021	05/07/2026	6.40	-	70.00%	-	1.09%	6.40
16/06/2021	12/07/2026	6.21	\$6.38	70.00%	-	1.09%	3.90
28/02/2022 ¹	30/06/2022	8.14	-	70.00%	-	1.02%	8.14
28/02/2022 ¹	30/06/2022	8.14	-	70.00%	-	1.02%	8.14
25/03/2022 ¹	30/06/2022	8.13	-	70.00%	-	1.54%	8.13
25/03/2022 ¹	30/06/2022	8.13	-	70.00%	-	1.54%	8.13

¹ The performance rights were determined to have a 0% probability of vesting at grant date and at 30 June 2022 and no share-based payments expense was recognised during FY22. These performance rights were cancelled on 8 August 2022.

The following table lists the key variables used in the valuation of each performance right granted to key management personnel during the year ended 30 June 2021:

Grant date	Expiry date	Share price at grant date \$	Exercise price	Expected volatility	Dividend yield	Risk-free interest rate	Fair value at grant date \$
19/05/2020	13/10/2023	1.14	-	71.75%	-	0.26%	0.59
19/05/2020	13/10/2023	1.14	-	71.75%	-	0.26%	0.59

This concludes the remuneration report, which has been audited.

Indemnity and insurance of officers

ASM Ltd (the Parent Company) has entered into deeds of indemnity, access and insurance with each of the Directors. These deeds remain in effect as at the date of this report. Under the Deeds, the Ultimate Parent Company indemnifies each Director to the maximum extent permitted by law against legal proceedings or claims made against or incurred by the Directors in connection with being a Director of the Consolidated Entity, or breach by the Consolidated Entity of its obligations under the Deed.

During the financial year, the Company paid a premium in respect of a contract to insure the Directors and executives of the Company against a liability to the extent permitted by the *Corporations Act 2001*. The contract of insurance prohibits disclosure of the nature of the liability and the amount of the premium.

No liability has arisen under this indemnity as at the date of this report.

Proceedings on behalf of the Company

No person has applied to the Court under section 237 of the *Corporations Act 2001* for leave to bring proceedings on behalf of the Company, or to intervene in any proceedings to which the Company is a party for the purpose of taking responsibility on behalf of the Company for all or part of those proceedings.

Non-audit services

The company may decide to employ the auditor on assignments additional to their statutory audit duties where the auditor's expertise and experience with the group is important.

The Directors are satisfied that the provision of non-audit services during the financial year, by the auditor (or by another person or firm on the auditor's behalf), is compatible with the general standard of independence for auditors imposed by the *Corporations Act 2001*.

Australian Strategic Materials Ltd
Directors' report
30 June 2022

The Directors, in accordance with advice provided by the audit committee, are of the opinion that the services as disclosed in note 22 to the financial statements do not compromise the external auditor's independence requirements of the *Corporations Act 2001* for the following reasons:

- all non-audit services have been reviewed and approved to ensure that they do not impact the integrity and objectivity of the auditor; and
- none of the services undermine the general principles relating to auditor independence as set out in APES 110 Code of Ethics for Professional Accountants.

Rounding of amounts

The Company is of a kind referred to in Corporations Instrument 2016/191, issued by the Australian Securities and Investments Commission, relating to 'rounding-off'. Amounts in this report have been rounded off in accordance with that Corporations Instrument to the nearest thousand dollars, or in certain cases, the nearest dollar.

The Financial Report has been prepared in Australian dollars and all values are rounded to the nearest thousand dollars (\$'000) unless otherwise stated.

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 immediately after this Directors' report.

This report is made in accordance with a resolution of Directors, pursuant to section 298(2)(a) of the *Corporations Act 2001*.

On behalf of the Directors



I Gandel
Chairman

21 September 2022



Auditor's Independence Declaration

As lead auditor for the audit of Australian Strategic Materials Limited for the year ended 30 June 2022, 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 audit; and
- (b) no contraventions of any applicable code of professional conduct in relation to the audit.

This declaration is in respect of Australian Strategic Materials Limited and the entities it controlled during the period.

A handwritten signature in black ink that reads 'Helen Bathurst'.

Helen Bathurst
Partner
PricewaterhouseCoopers

Perth
21 September 2022

For personal use only

Australian Strategic Materials Ltd

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General information

The financial statements cover Australian Strategic Materials Ltd as a Consolidated entity consisting of Australian Strategic Materials Ltd and the entities it controlled at the end of, or during, the year. The financial statements are presented in Australian dollars, which is Australian Strategic Materials Ltd's functional and presentation currency.

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

Registered office

Australian Strategic Materials Ltd

Principal place of business

Level 4, 66 Kings Park Road, West Perth, Western Australia

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

The financial statements were authorised for issue, in accordance with a resolution of Directors, on 21 September 2022. The Directors have the power to amend and reissue the financial statements.

Australian Strategic Materials Ltd
Consolidated statement of profit or loss and other comprehensive income
For the year ended 30 June 2022

	Note	Consolidated 2022 \$'000	2021 \$'000
Revenue	3	1,870	1,377
Other income	4	306	5,283
Expenses			
Operating expenses	5	(5,826)	-
Net foreign exchange loss	6	(1,413)	(46)
Professional fees and consulting services		(5,745)	(1,915)
Employee remuneration		(8,227)	(912)
Share based payments	34	(876)	(917)
Directors' fees and salaries		(1,263)	(581)
General and administration expenses		(3,604)	(2,316)
Pastoral company expenses		(2,124)	(1,408)
Depreciation and amortisation expense		(1,857)	(970)
Fair value movement in biological assets		535	430
Loss before income tax benefit		(28,224)	(1,975)
Income tax benefit	7	3,967	1,166
Loss after income tax benefit for the year		(24,257)	(809)
Other comprehensive income			
<i>Items that may be reclassified subsequently to profit or loss</i>			
Foreign currency translation		(790)	9
Other comprehensive income for the year, net of tax		(790)	9
Total comprehensive loss for the year		(25,047)	(800)
Loss for the year is attributable to:			
Non-controlling interest		18	(26)
Owners of Australian Strategic Materials Ltd	21	(24,275)	(783)
		(24,257)	(809)
Total comprehensive loss for the year is attributable to:			
Non-controlling interest		-	-
Owners of Australian Strategic Materials Ltd		(25,047)	(800)
		(25,047)	(800)
		Cents	Cents
Basic loss per share	32	(17)	(1)
Diluted loss per share	32	(17)	(1)

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

Australian Strategic Materials Ltd
Consolidated balance sheet
As at 30 June 2022

	Note	Consolidated 2022 \$'000	2021 \$'000
Assets			
Current assets			
Cash and cash equivalents	8	60,220	93,324
Trade and other receivables	9	2,266	739
Inventories	10	13,117	243
Biological assets	11	451	581
Total current assets		<u>76,054</u>	<u>94,887</u>
Non-current assets			
Inventories	10	984	-
Property, plant and equipment	12	64,177	31,451
Intangibles	14	3,616	4,668
Exploration and evaluation	13	104,225	96,742
Biological assets	11	1,346	663
Other		298	224
Total non-current assets		<u>174,646</u>	<u>133,748</u>
Total assets		<u>250,700</u>	<u>228,635</u>
Liabilities			
Current liabilities			
Trade and other payables	15	3,479	1,202
Interest bearing liabilities	16	176	-
Provisions	17	479	159
Unearned revenue	18	6,554	-
Other		-	22
Total current liabilities		<u>10,688</u>	<u>1,383</u>
Non-current liabilities			
Interest bearing liabilities	16	17,095	-
Deferred tax	7	20,609	24,561
Provisions	17	2,611	27
Other		-	59
Total non-current liabilities		<u>40,315</u>	<u>24,647</u>
Total liabilities		<u>51,003</u>	<u>26,030</u>
Net assets		<u>199,697</u>	<u>202,605</u>
Equity			
Issued capital	19	228,425	207,162
Reserves	20	12,336	12,250
Accumulated losses	21	(41,141)	(16,866)
Equity attributable to the owners of Australian Strategic Materials Ltd		<u>199,620</u>	<u>202,546</u>
Non-controlling interest		77	59
Total equity		<u>199,697</u>	<u>202,605</u>

The above consolidated balance sheet should be read in conjunction with the accompanying notes

Australian Strategic Materials Ltd
Consolidated statement of changes in equity
For the year ended 30 June 2022

Consolidated	Contributed equity \$'000	Capital contribution \$'000	Foreign currency reserve \$'000	Share-based payment reserve \$'000	Accumulated losses \$'000	Non-controlling interest \$'000	Total equity \$'000
Balance at 1 July 2020	1	11,324	-	-	(16,083)	-	(4,758)
Loss after income tax benefit for the year	-	-	-	-	(783)	(26)	(809)
Other comprehensive income for the year, net of tax	-	-	9	-	-	-	9
Total comprehensive income for the year	-	-	9	-	(783)	(26)	(800)
<i>Transactions with owners in their capacity as owners:</i>							
Contributions of equity, net of transaction costs (note 19)	206,845	-	-	-	-	-	206,845
Share-based payments (note 34)	-	-	-	917	-	-	917
Deferred tax recognised in equity	316	-	-	-	-	-	316
Non-controlling interests	-	-	-	-	-	85	85
Balance at 30 June 2021	<u>207,162</u>	<u>11,324</u>	<u>9</u>	<u>917</u>	<u>(16,866)</u>	<u>59</u>	<u>202,605</u>
Consolidated	Contributed equity \$'000	Capital contribution \$'000	Foreign currency reserve \$'000	Share-based payment reserve \$'000	Accumulated losses \$'000	Non-controlling interest \$'000	Total equity \$'000
Balance at 1 July 2021	207,162	11,324	9	917	(16,866)	59	202,605
Profit/(loss) after income tax benefit for the year	-	-	-	-	(24,275)	18	(24,257)
Other comprehensive loss for the year, net of tax	-	-	(790)	-	-	-	(790)
Total comprehensive income for the year	-	-	(790)	-	(24,275)	18	(25,047)
<i>Transactions with owners in their capacity as owners:</i>							
Contributions of equity, net of transaction costs (note 19)	21,278	-	-	-	-	-	21,278
Share-based payments (note 34)	-	-	-	876	-	-	876
Deferred tax recognised in equity	(15)	-	-	-	-	-	(15)
Balance at 30 June 2022	<u>228,425</u>	<u>11,324</u>	<u>(781)</u>	<u>1,793</u>	<u>(41,141)</u>	<u>77</u>	<u>199,697</u>

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

Australian Strategic Materials Ltd
Consolidated statement of cash flows
For the year ended 30 June 2022

	Note	Consolidated	
		2022 \$'000	2021 \$'000
Cash flows from operating activities			
Receipts from customers (inclusive of goods and services tax)		1,414	1,145
Payments to suppliers (inclusive of goods and services tax)		(39,212)	(6,676)
		(37,798)	(5,531)
Interest received		29	75
Other income		246	242
Finance costs paid		(71)	(1)
Net cash used in operating activities	28	(37,594)	(5,215)
Cash flows from investing activities			
Payments for investments		-	(414)
Payments for property, plant and equipment	12	(31,464)	(2,955)
Payments for exploration and evaluation	13	(8,410)	(5,840)
Payments for biological assets		(1,140)	(196)
Net cash acquired with subsidiaries		-	114
Proceeds of government grants received		7,482	-
Net cash used in investing activities		(33,532)	(9,291)
Cash flows from financing activities			
Proceeds from issue of shares	19	21,816	91,919
Proceeds from borrowings	16	16,758	-
Share issue transaction costs	19	(538)	(2,633)
Net cash from financing activities		38,036	89,286
Net (decrease)/increase in cash and cash equivalents		(33,090)	74,780
Cash and cash equivalents at the beginning of the financial year		93,324	18,544
Effects of exchange rate changes on cash and cash equivalents		(14)	-
Cash and cash equivalents at the end of the financial year	8	60,220	93,324

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

Australian Strategic Materials Ltd
Notes to the consolidated financial statements
30 June 2022

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Note 1. Significant accounting policies

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

Basis of preparation

These general purpose financial statements have been prepared in accordance with Australian Accounting Standards and Interpretations issued by the Australian Accounting Standards Board ('AASB') and the *Corporations Act 2001*, as appropriate for for-profit oriented entities. These financial statements also comply with International Financial Reporting Standards as issued by the International Accounting Standards Board ('IASB').

New or amended Accounting Standards and Interpretations adopted

The Consolidated entity has adopted all of the new or amended Accounting Standards and Interpretations issued by the Australian Accounting Standards Board ('AASB') that are mandatory for the current reporting period.

Any new or amended Accounting Standards or Interpretations that are not yet mandatory have not been early adopted.

The adoption of these Accounting Standards and Interpretations did not have any significant impact on the financial performance or position of the Consolidated entity.

The adoption of these Accounting Standards and Interpretations did not have any significant impact on the financial performance or position of the Consolidated entity.

New Accounting Standards and Interpretations not yet mandatory or early adopted

Australian Accounting Standards and Interpretations that have recently been issued or amended but are not yet mandatory, have not been early adopted by the Consolidated entity for the annual reporting period ended 30 June 2022. The Consolidated entity has not yet assessed the impact of these new or amended Accounting Standards and Interpretations.

The following Accounting Standards and Interpretations are most relevant to the Consolidated entity:

Reclassifications of items in the financial statements

Minor reclassifications of items in the financial statements of the previous period have been made in accordance with the classification of items in the financial statements for the year ended 30 June 2022.

Going concern

The consolidated financial statements have been prepared on a going concern basis which contemplates the realisation of assets and settlement of liabilities in the normal course of business.

The Group has cash outflows from operating and investing activities of \$71,126,000 for the year ended 30 June 2022. At 30 June 2022, the Group had cash on hand of \$60,220,000 (30 June 2021: \$93,324,000). The Group has net working capital as at 30 June 2022 of \$65,366,000 and outstanding commitments of \$23,023,709 relating to construction of the Korean Metals Plant, Dubbo Project FEED, Dubbo land acquisitions, and exploration obligations all due within 12 months (Refer Note 24).

Based on the Group's cash flow forecast, the Group may require additional funding to enable the Group to continue to realise its strategic business activities and meet all associated corporate, exploration, construction, and development commitments over the period.

The continuing viability of the Group and its ability to continue as a going concern and meet its debts and commitments as they fall due are dependent upon the Group:

Note 1. Significant accounting policies (continued)

- Continuing to source new customers for sale of product produced from the Korean Metals Plant.
- Raising additional equity capital. The Directors are of the view that the Group will be able to raise further equity capital as they were successful in raising approximately \$91.9 million in equity (before costs) during April 2021 and \$21.8m during May 2022.
- Raising debt financing for the Dubbo Project. ASM has appointed the Australian and New Zealand Banking Group Limited (ANZ) as a debt financial advisor based on ANZ's experience and strong relationships in Australia and Korea, including with Australian and Korean export finance agencies. ASM is currently working closely with ANZ to secure funding for the development of the Dubbo Project financing commitments; and/or
- Satisfying Export Finance Australia (EFA) conditions precedent to access \$200 million in finance support for the Dubbo Project as announced on 28 June 2021.

As a result of the above, there is a material uncertainty that may cast significant doubt on the entity's ability to continue as a going concern and therefore, that the entity may be unable to realise its assets and discharge its liabilities in the normal course of business. However, the Directors believe that the Group will be able to continue as a going concern and that it is appropriate to adopt the going concern basis in the preparation of the financial report.

Biological Assets

The Company recognises biological assets when, and only when, the Company controls the assets as a result of past events, it is probable that future economic benefits associated with such assets will flow to the Company and the fair value or cost of the assets can be measured reliably. Expenditure incurred on biological assets are measured on initial recognition and at the end of each reporting period at its fair value less costs to sell in terms. The gain or loss arising on initial recognition of such biological assets at fair value less costs to sell and from a change in fair value less costs to sell of biological assets are included in the Consolidated Statement of profit or loss and other comprehensive Income for the period in which it arises.

Cash and Cash Equivalents

Cash and cash equivalents includes cash on hand, deposits held at call with financial institutions, other short-term, highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

Historical cost convention

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

Parent entity information

In accordance with the *Corporations Act 2001*, these financial statements present the results of the Consolidated entity only. Supplementary information about the parent entity is disclosed in note 26.

Principles of consolidation

The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of Australian Strategic Materials Ltd ('Company' or 'parent entity') as at 30 June 2022 and the results of all subsidiaries for the year then ended. Australian Strategic Materials Ltd and its subsidiaries together are referred to in these financial statements as the 'Consolidated entity'.

Subsidiaries are all those entities over which the Consolidated entity has control. The Consolidated entity controls an entity when the Consolidated entity 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 Consolidated entity. They are de-consolidated from the date that control ceases.

Note 1. Significant accounting policies (continued)

Intercompany transactions, balances and unrealised gains on transactions between entities in the Consolidated entity 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 Consolidated entity.

The acquisition of subsidiaries is accounted for using the acquisition method of accounting. A change in ownership interest, without the loss of control, is accounted for as an equity transaction, where the difference between the consideration transferred and the book value of the share of the non-controlling interest acquired is recognised directly in equity attributable to the parent.

Non-controlling interest in the results and equity of subsidiaries are shown separately in the statement of profit or loss and other comprehensive income, balance sheet and statement of changes in equity of the Consolidated entity. Losses incurred by the Consolidated entity are attributed to the non-controlling interest in full, even if that results in a deficit balance.

Where the Consolidated entity loses control over a subsidiary, it derecognises the assets including goodwill, liabilities and non-controlling interest in the subsidiary together with any cumulative translation differences recognised in equity. The Consolidated entity recognises the fair value of the consideration received and the fair value of any investment retained together with any gain or loss in profit or loss.

Property Plant and Equipment

Plant and equipment is stated at historical cost less accumulated depreciation and impairment. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

- expenditure that is directly attributable to the acquisition and commissioning of items;
- the present value of the estimated costs of dismantling and removing the asset and restoring the site on which it is located

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Consolidated Entity and the cost of the item can be measured reliably. The carrying amount of any component accounted for as a separate asset is derecognised when replaced. All other repairs and maintenance are charged to profit or loss during the reporting period in which they are incurred. Land is not depreciated.

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period. An assets carrying value amount is written down immediately to its recoverable amount if the assets carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposals are determined by comparing proceeds with carrying amount. These are included in the statement of comprehensive income.

Plant and equipment is stated at historical cost less accumulated depreciation and impairment. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Depreciation is calculated on a straight-line basis to write off the net cost of each item of property, plant and equipment (excluding land) over their expected useful lives as follows:

- Buildings 40 years
- Plant and equipment 3-7 years

The residual values, useful lives and depreciation methods are reviewed, and adjusted if appropriate, at each reporting date.

An item of property, plant and equipment is derecognised upon disposal or when there is no future economic benefit to the Consolidated entity. Gains and losses between the carrying amount and the disposal proceeds are taken to profit or loss.

Note 1. Significant accounting policies (continued)

Exploration and Evaluation

Exploration and evaluation costs are carried forward on an area of interest basis. Costs are recognised and carried forward where rights to tenure of the area of interest are current and either:

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

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

Once the technical feasibility and commercial viability of the extraction of mineral resources in an area of interest are demonstrable, exploration and evaluation assets attributable to that area of interest are first tested for impairment and then reclassified to mine properties under development. No amortisation is charged during the exploration and evaluation phase.

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

Costs carried forward in respect of an area of interest that is abandoned are written off in the period in which the decision to abandon is made.

There may exist, on the Consolidated Entity's exploration properties, areas subject to claim under native title or containing sacred sites or sites of significance to Aboriginal people. As a result, exploration properties or areas within tenements may be subject to exploration or mining restrictions.

Intangible Assets

Intangible assets acquired as part of a business combination, other than goodwill, are initially measured at their fair value at the date of the acquisition. Intangible assets acquired separately are initially recognised at cost. Indefinite life intangible assets are not amortised and are subsequently measured at cost less any impairment. Finite life intangible assets are subsequently measured at cost less amortisation and any impairment. The gains or losses recognised in profit or loss arising from the derecognition of intangible assets are measured as the difference between net disposal proceeds and the carrying amount of the intangible asset. The method and useful lives of finite life intangible assets are reviewed annually. Changes in the expected pattern of consumption or useful life are accounted for prospectively by changing the amortisation method or period.

Intellectual Property

Significant costs associated with intellectual property are deferred and amortised on a straight-line basis over the period of their expected benefit, being their finite life of 5 years.

Trade and other payables

These amounts represent liabilities for goods and services provided to the Consolidated entity prior to the end of the financial year and which are unpaid. Due to their short-term nature they are measured at amortised cost and are not discounted. The amounts are unsecured and are usually paid within 30 days of recognition.

Foreign currency translation

The financial statements are presented in Australian dollars, which is Australian Strategic Materials Ltd's functional and presentation currency.

Foreign currency transactions

Foreign currency transactions are translated into Australian dollars 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 financial year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in profit or loss.

Note 1. Significant accounting policies (continued)

Foreign operations

The assets and liabilities of foreign operations are translated into Australian dollars using the exchange rates at the reporting date. The revenues and expenses of foreign operations are translated into Australian dollars using the average exchange rates, which approximate the rates at the dates of the transactions, for the period. All resulting foreign exchange differences are recognised in other comprehensive income through the foreign currency reserve in equity.

The foreign currency reserve is recognised in profit or loss when the foreign operation or net investment is disposed of.

Current and non-current classification

Assets and liabilities are presented in the balance sheet based on current and non-current classification.

An asset is classified as current when: it is either expected to be realised or intended to be sold or consumed in the Consolidated entity's normal operating cycle; it is held primarily for the purpose of trading; it is expected to be realised within 12 months after the reporting period; or the asset is cash or cash equivalent unless restricted from being exchanged or used to settle a liability for at least 12 months after the reporting period. All other assets are classified as non-current.

A liability is classified as current when: it is either expected to be settled in the Consolidated entity's normal operating cycle; it is held primarily for the purpose of trading; it is due to be settled within 12 months after the reporting period; or there is no unconditional right to defer the settlement of the liability for at least 12 months after the reporting period. All other liabilities are classified as non-current.

Deferred tax assets and liabilities are always classified as non-current.

Investments and other financial assets

Investments and other financial assets are initially measured at fair value. Transaction costs are included as part of the initial measurement, except for financial assets at fair value through profit or loss. Such assets are subsequently measured at either amortised cost or fair value depending on their classification. Classification is determined based on both the business model within which such assets are held and the contractual cash flow characteristics of the financial asset unless an accounting mismatch is being avoided.

Financial assets are derecognised when the rights to receive cash flows have expired or have been transferred and the Consolidated entity has transferred substantially all the risks and rewards of ownership. When there is no reasonable expectation of recovering part or all of a financial asset, its carrying value is written off.

Financial assets at amortised cost

A financial asset is measured at amortised cost only if both of the following conditions are met: (i) it is held within a business model whose objective is to hold assets in order to collect contractual cash flows; and (ii) the contractual terms of the financial asset represent contractual cash flows that are solely payments of principal and interest.

Impairment of financial assets

The Consolidated entity recognises a loss allowance for expected credit losses on financial assets which are either measured at amortised cost or fair value through other comprehensive income. The measurement of the loss allowance depends upon the Consolidated entity's assessment at the end of each reporting period as to whether the financial instrument's credit risk has increased significantly since initial recognition, based on reasonable and supportable information that is available, without undue cost or effort to obtain.

Where there has not been a significant increase in exposure to credit risk since initial recognition, a 12-month expected credit loss allowance is estimated. This represents a portion of the asset's lifetime expected credit losses that is attributable to a default event that is possible within the next 12 months. Where a financial asset has become credit impaired or where it is determined that credit risk has increased significantly, the loss allowance is based on the asset's lifetime expected credit losses. The amount of expected credit loss recognised is measured on the basis of the probability weighted present value of anticipated cash shortfalls over the life of the instrument discounted at the original effective interest rate.

For financial assets mandatorily measured at fair value through other comprehensive income, the loss allowance is recognised in other comprehensive income with a corresponding expense through profit or loss. In all other cases, the loss allowance reduces the asset's carrying value with a corresponding expense through profit or loss.

Note 1. Significant accounting policies (continued)

Financial liabilities

Initial recognition and measurement

Financial liabilities are classified, at initial recognition, as financial liabilities at fair value through profit or loss, loans and borrowings, payables, or as derivatives designated as hedging instruments in an effective hedge, as appropriate.

All financial liabilities are recognised initially at fair value and, in the case of loans and borrowings and payables, net of directly attributable transaction costs. The Group's financial liabilities include trade and other payables and loans and borrowings including bank overdrafts.

Subsequent measurement - financial liabilities at amortised cost

This is the category most relevant to the Group. After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the Effective Interest Rate (EIR) method. Gains and losses are recognised in profit or loss when the liabilities are derecognised as well as through the EIR amortisation process. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortisation is included as finance costs in the statement of profit or loss.

Derecognition

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as the derecognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognised in the statement of profit or loss.

Employee benefits

The liability for annual leave and long service leave not expected to be settled within 12 months of the reporting date are measured at the present value of expected future payments to be made in respect of services provided by employees up to the reporting date using the projected unit credit method. Consideration is given to expected future wage and salary levels, experience of employee departures and periods of service. Expected future payments are discounted using market yields at the reporting date on high quality corporate bonds with terms to maturity and currency that match, as closely as possible, the estimated future cash outflows.

Provisions

Provisions are recognised when the Consolidated entity has a present (legal or constructive) obligation as a result of a past event, it is probable the Consolidated entity will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the reporting date, taking into account the risks and uncertainties surrounding the obligation. If the time value of money is material, provisions are discounted using a current pre-tax rate specific to the liability. The increase in the provision resulting from the passage of time is recognised as a finance cost.

Taxes

Recognition and measurement

The income tax expense or revenue for the year is the tax payable on the current year's taxable income based on the national income tax rate for each jurisdiction adjusted by changes in deferred tax assets and liabilities attributable to temporary differences between the tax bases of assets and liabilities and their carrying amounts in the financial statements, and by unused tax losses (if appropriate).

Deferred tax liabilities are recognised for all taxable temporary differences. Deferred tax assets are recognised for deductible temporary differences, unused tax losses and unused tax credits only if it is probable that sufficient future taxable income will be available to utilise those temporary differences and losses.

Deferred tax is not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of assets and liabilities in a transaction that affects neither taxable profit or loss; or the accounting profit or loss arising from taxable differences related to investment in subsidiaries, associates and interests in joint ventures to the extent that:

Note 1. Significant accounting policies (continued)

- the Group is able to control the reversal of the temporary difference
- the temporary difference is not expected to reverse in the foreseeable future. Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year in which the liability is settled or the asset is realised, based on tax rates (and tax laws) that have been enacted or substantially enacted by the end of the reporting year.

Deferred tax assets and liabilities are offset only if certain criteria are met. Income taxes relating to items recognised directly in equity are recognised in equity.

Tax consolidation

ASM and its wholly-owned Australian controlled entities implemented the tax consolidation legislation as of 21 July 2020 and the entities in the tax consolidated group entered into a tax sharing agreement, which limits the joint and several liability of the wholly-owned entities in the case of a default by the head entity, Australian Strategic Materials Limited. The entities have also entered into a tax funding agreement under which the wholly-owned entities fully compensate Australian Strategic Materials Limited for any current tax payable assumed and are compensated by Australian Strategic Materials Limited for any current tax receivable.

Impairment of non-financial assets

At each balance sheet date, the Consolidated Entity reviews the carrying amounts of its non-current assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent, if any, of the impairment loss. Where it is not possible to estimate the recoverable amount of an individual asset, the Consolidated Entity estimates the recoverable amount of the cash-generating unit (CGU) to which the asset belongs.

If the recoverable amount of an asset or CGU is estimated to be less than its carrying amount, the carrying amount of the asset or CGU is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss.

Where an impairment loss subsequently reverses the carrying amount of the asset or CGU is increased to the revised estimate of its recoverable amount, not to exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset or cash generating unit in prior years. A reversal of an impairment loss is recognised immediately in profit or loss.

The recoverable amount of a CGU is the higher of its fair value less costs to dispose (FVLCTD) and its value-in-use (VIU). FVLCTD is the best estimate of the amount obtainable from the sale of a CGU in an arm's length transaction between knowledgeable willing parties, less the costs of disposal. This estimate is determined on the basis of available market information taking into account specific circumstances.

VIU is the present value of the future cash flows expected to be derived from the assets or group of assets (CGUs). Cash flow projections are based on economic and regulatory assumptions and forecast trading conditions prepared by management.

Finance costs

Finance costs attributable to qualifying assets are capitalised as part of the asset. All other finance costs are expensed in the period in which they are incurred.

Goods and Services Tax ('GST') and other similar taxes

Revenues, expenses and assets are recognised net of the amount of associated GST, unless the GST incurred is not recoverable from the tax authority. In this case it is recognised as part of the cost of the acquisition of the asset or as part of the expense.

Receivables and payables are stated inclusive of the amount of GST receivable or payable. The net amount of GST recoverable from, or payable to, the tax authority is included in other receivables or other payables in the balance sheet.

Cash flows are presented on a gross basis. The GST components of cash flows arising from investing or financing activities which are recoverable from, or payable to the tax authority, are presented as operating cash flows.

Commitments and contingencies are disclosed net of the amount of GST recoverable from, or payable to, the tax authority.

Note 1. Significant accounting policies (continued)

Reserves

Foreign currency reserve

The reserve is used to recognise exchange differences arising from the translation of the financial statements of foreign operations to Australian dollars. It is also used to recognise gains and losses on hedges of the net investments in foreign operations.

Capital contributions reserve

This reserve has been used to recognise the discounted value of a loan from Alkane Resources Ltd prior to the demerger in accordance with AASB 9.

Share-based payments reserve

The reserve is used to recognise the value of equity benefits provided to employees and directors as part of their remuneration, and other parties as part of their compensation for services.

Subsidiaries

Subsidiaries are all entities over which the Consolidate Entity has control. The Consolidated Entity controls an entity when the Consolidated Entity 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 Consolidated Entity. They are deconsolidated from the date that control ceases.

Intercompany transactions, balances and unrealised gains on transactions between Consolidated Entity 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.

Non-controlling interests in the results and equity of subsidiaries are shown separately in the consolidated statement of comprehensive income, statement of comprehensive income, statement of changes in equity and balance sheet respectively.

Government grants

Government grants are recognised where there is reasonable assurance that the grant will be received, and all attached conditions will be complied with. When the grant relates to an expense item, it is recognised as income on a systematic basis over the periods that the related costs, for which is intended to compensate, are expensed. When the grant relates to an asset, it is recognised as an offset to the asset and is recognised in the income statement on a systematic basis over the life of the asset. Where grant criteria are not fully satisfied a portion of the grant may be repaid subject to performance condition requirements.

Decommissioning liability

Decommissioning costs are provided for at the present value of expected costs to settle restoration obligations using estimated cash flows and are recognized as part of the cost of the relevant asset. The cash flows are discounted at a current pre-tax rate that reflects the risks specific to the decommissioning liability. The unwinding of the discount is expensed as incurred and recognized in the statement of profit or loss as a finance cost. The estimated future costs of decommissioning are reviewed annually and adjusted as appropriated. A corresponding decommissioning asset is recognised, whereby it is added to the cost of the plant and will be amortised over the plants useful life following commissioning.

Inventories

Raw materials are physically measured and are valued at the lower of cost or net realisable value. Cost of raw materials comprises the direct purchase costs. Net realisable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and the estimated costs necessary to make the sale.

Consumables relating to plant and equipment and farm supplies are recognised as inventory and measured at cost.

Any provision for obsolescence is determined by reference to specific items of stock. A regular review is undertaken to determine the extent of any provision for obsolescence.

Note 1. Significant accounting policies (continued)

Share-based payments

Equity-settled and cash-settled share-based compensation benefits are provided to employees.

Equity-settled transactions are awards of shares, or options over shares, that are provided to employees in exchange for the rendering of services. Cash-settled transactions are awards of cash for the exchange of services, where the amount of cash is determined by reference to the share price.

The cost of equity-settled transactions are measured at fair value on grant date. Fair value is independently determined using either the Binomial or Black-Scholes option pricing model that takes into account the exercise price, the term of the option, the impact of dilution, the share price at grant date and expected price volatility of the underlying share, the expected dividend yield and the risk free interest rate for the term of the option, together with non-vesting conditions that do not determine whether the Consolidated entity receives the services that entitle the employees to receive payment. No account is taken of any other vesting conditions.

The cost of equity-settled transactions are recognised as an expense with a corresponding increase in equity over the vesting period. The cumulative charge to profit or loss is calculated based on the grant date fair value of the award, the best estimate of the number of awards that are likely to vest and the expired portion of the vesting period. The amount recognised in profit or loss for the period is the cumulative amount calculated at each reporting date less amounts already recognised in previous periods.

The cost of cash-settled transactions is initially, and at each reporting date until vested, determined by applying either the Binomial or Black-Scholes option pricing model, taking into consideration the terms and conditions on which the award was granted. The cumulative charge to profit or loss until settlement of the liability is calculated as follows:

- during the vesting period, the liability at each reporting date is the fair value of the award at that date multiplied by the expired portion of the vesting period.
- from the end of the vesting period until settlement of the award, the liability is the full fair value of the liability at the reporting date.

All changes in the liability are recognised in profit or loss. The ultimate cost of cash-settled transactions is the cash paid to settle the liability.

Market conditions are taken into consideration in determining fair value. Therefore any awards subject to market conditions are considered to vest irrespective of whether or not that market condition has been met, provided all other conditions are satisfied.

If equity-settled awards are modified, as a minimum an expense is recognised as if the modification has not been made. An additional expense is recognised, over the remaining vesting period, for any modification that increases the total fair value of the share-based compensation benefit as at the date of modification.

If the non-vesting condition is within the control of the Consolidated entity or employee, the failure to satisfy the condition is treated as a cancellation. If the condition is not within the control of the Consolidated entity or employee and is not satisfied during the vesting period, any remaining expense for the award is recognised over the remaining vesting period, unless the award is forfeited.

If equity-settled awards are cancelled, it is treated as if it has vested on the date of cancellation, and any remaining expense is recognised immediately. If a new replacement award is substituted for the cancelled award, the cancelled and new award is treated as if they were a modification.

If the non-vesting condition is within the control of the Consolidated entity or employee, the failure to satisfy the condition is treated as a cancellation. If the condition is not within the control of the Consolidated entity or employee and is not satisfied during the vesting period, any remaining expense for the award is recognised over the remaining vesting period, unless the award is forfeited.

If equity-settled awards are cancelled, it is treated as if it has vested on the date of cancellation, and any remaining expense is recognised immediately. If a new replacement award is substituted for the cancelled award, the cancelled and new award is treated as if they were a modification.

Note 1. Significant accounting policies (continued)

Rounding of amounts

The Company is of a kind referred to in Corporations Instrument 2016/191, issued by the Australian Securities and Investments Commission, relating to 'rounding-off'. Amounts in this report have been rounded off in accordance with that Corporations Instrument to the nearest thousand dollars, or in certain cases, the nearest dollar.

Note 2. Critical accounting judgements, estimates and assumptions

The preparation of the financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts in the financial statements. Management continually evaluates its judgements and estimates in relation to assets, liabilities, contingent liabilities, revenue and expenses. Management bases its judgements, estimates and assumptions on historical experience and on other various factors, including expectations of future events, management believes to be reasonable under the circumstances. The resulting accounting judgements and estimates will seldom equal the related actual results. The judgements, estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities (refer to the respective notes) within the next financial year are discussed below.

Exploration and evaluation costs

Exploration and evaluation costs have been capitalised on the basis that the Consolidated entity will commence commercial production in the future, from which time the costs will be amortised in proportion to the depletion of the mineral resources. Key judgements are applied in considering costs to be capitalised which includes determining expenditures directly related to these activities and allocating overheads between those that are expensed and capitalised. In addition, costs are only capitalised that are expected to be recovered either through successful development or sale of the relevant mining interest. Factors that could impact the future commercial production at the mine include the level of reserves and resources, future technology changes, which could impact the cost of mining, future legal changes and changes in commodity prices. To the extent that capitalised costs are determined not to be recoverable in the future, they will be written off in the period in which this determination is made.

Where economic recoverable reserves for an area of interest have been identified, and a decision to develop has occurred, capitalised expenditure is classified as mine development.

To the extent that capitalised costs are determined not to be recoverable in the future, they will be written off in the period in which the determination is made.

Impairment of non-financial assets other than goodwill

The Consolidated Entity assesses impairment of non-financial assets other than goodwill and other indefinite life intangible assets at each reporting date by evaluating conditions specific to the Consolidated Entity and to the particular asset that may lead to impairment. If an impairment trigger exists, the recoverable amount of the asset is determined. This involves fair value less costs of disposal or value-in-use calculations, which incorporate a number of key estimates and assumptions.

Income tax

The Consolidated Entity is subject to income taxes in the jurisdictions in which it operates. Significant judgement is required in determining the provision for income tax. There are many transactions and calculations undertaken during the ordinary course of business for which the ultimate tax determination is uncertain. The Consolidated Entity recognises liabilities for anticipated tax audit issues based on the Consolidated Entity's current understanding of the tax law. Where the final tax outcome of these matters is different from the carrying amounts, such differences will impact the current and deferred tax provisions in the period in which such determination is made.

The income tax expense or credit for the period is the tax payable on the current period's taxable income based on the applicable income tax rate for each jurisdiction adjusted by changes in deferred tax assets and liabilities attributable to temporary differences and to unused tax losses.

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the end of the reporting period in the countries where the company and its subsidiaries and associates operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Note 2. Critical accounting judgements, estimates and assumptions (continued)

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, deferred tax liabilities are not recognised if they arise from the initial recognition of goodwill. Deferred income tax is also not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the end of the reporting period and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

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

Deferred tax liabilities and assets are not recognised for temporary differences between the carrying amount and tax bases of investments in foreign operations where the company is able to control the timing of the reversal of the temporary differences and it is probable that the differences will not reverse in the foreseeable future.

Deferred tax assets and liabilities are offset where there is a legally enforceable right to offset current tax assets and liabilities and where the deferred tax balances relate to the same taxation authority. Current tax assets and tax liabilities are offset where the entity has a legally enforceable right to offset and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously

Current and deferred tax is recognised in profit or loss, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, the tax is also recognised in other comprehensive income or directly in equity, respectively.

Note 3. Revenue

	Consolidated	
	2022	2021
	\$'000	\$'000
Pastoral company revenue	1,870	1,377

Note 4. Other income

	Consolidated	
	2022	2021
	\$'000	\$'000
Net gain on loan forgiveness	-	4,731
Interest income	29	69
Property and Rental income	120	151
Sundry income	157	332
Other income	306	5,283

Australian Strategic Materials Ltd
Notes to the consolidated financial statements
30 June 2022

Note 5. Operating expenses

	Consolidated	
	2022	2021
	\$'000	\$'000
Inventory write off	2,392	-
Service fees	799	-
Supplies expenses	542	-
Export fee	295	-
Electricity	300	-
Insurance expense	189	-
Rental expenses	61	-
Other	1,248	-
	<hr/>	<hr/>
Operating expenses	5,826	-
	<hr/> <hr/>	<hr/> <hr/>

Note 6. Net foreign exchange loss

	Consolidated	
	2022	2021
	\$'000	\$'000
Realised foreign exchange loss	38	45
Unrealised foreign exchange loss	1,375	1
	<hr/>	<hr/>
	1,413	46
	<hr/> <hr/>	<hr/> <hr/>

Note 7. Income tax

	Consolidated	
	2022	2021
	\$'000	\$'000
<i>Income tax benefit</i>		
Deferred tax - origination and reversal of temporary differences	3,967	1,166
	<hr/>	<hr/>
Aggregate income tax expense	3,967	1,166
	<hr/> <hr/>	<hr/> <hr/>
Deferred tax included in income tax benefit comprises:		
Decrease in deferred tax assets	3,967	1,166
	<hr/>	<hr/>
<i>Numerical reconciliation of income tax benefit and tax at the statutory rate</i>		
Loss before income tax benefit	(28,224)	(1,975)
	<hr/>	<hr/>
Tax at the statutory tax rate of 30%	(8,467)	(593)
	<hr/>	<hr/>
Tax effect amounts which are not deductible/(taxable) in calculating taxable income:		
Non-deductible expenses	3,029	836
Tax rate differential on foreign income	1,002	88
Under Provision in Prior Year	842	-
Non-assessable income	(278)	(1,419)
Non-Deductible equity raising costs	(95)	(78)
	<hr/>	<hr/>
Income tax benefit	(3,967)	(1,166)
	<hr/> <hr/>	<hr/> <hr/>

Australian Strategic Materials Ltd
Notes to the consolidated financial statements
30 June 2022

Note 7. Income tax (continued)

	Consolidated	
	2022	2021
	\$'000	\$'000
<i>Amounts credited directly to equity</i>		
Deferred tax assets	(15)	316

	Consolidated	
	2022	2021
	\$'000	\$'000
<i>Deferred tax asset</i>		
Deferred tax asset comprises temporary differences attributable to:		
Amounts recognised in profit or loss:		
Tax losses	8,787	2,086
Accruals and provisions	499	103
Blackhole expenses	301	317
Property, plant and equipment	-	3
Other	159	36
Offset against deferred tax liabilities	(9,746)	(2,545)
Deferred tax asset	-	-
Movements:		
Opening balance	24,561	26,043
Charged to profit or loss	(3,967)	(1,166)
Credited/(charged) to equity	15	(316)
Closing balance	20,609	24,561

	Consolidated	
	2022	2021
	\$'000	\$'000

<i>Deferred tax liability</i>		
Deferred tax liability comprises temporary differences attributable to:		
Amounts recognised in profit or loss:		
Prepayments	4	3
Property, plant and equipment	113	-
Exploration	30,238	27,103
Set-off of deferred tax asset	(9,746)	(2,545)
Deferred tax liability	20,609	24,561

Movements:		
Opening balance	24,561	26,043
Charged/(credited) to profit or loss	(3,967)	(1,166)
Credited to equity	15	(316)
Closing balance	20,609	24,561

Australian Strategic Materials Ltd
Notes to the consolidated financial statements
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Note 8. Cash and cash equivalents

	Consolidated	
	2022	2021
	\$'000	\$'000
<i>Current assets</i>		
Cash at bank	60,220	93,324

Note 9. Trade and other receivables

	Consolidated	
	2022	2021
	\$'000	\$'000
<i>Current assets</i>		
Trade receivables	528	392
Prepayments	1,505	347
Non trade receivables	233	-
	<u>2,266</u>	<u>739</u>

Allowance for expected credit losses

The Group has assessed the credit risk on the receivables using life-time expected credit losses. In this regard, the Group has concluded that the probability of default on the receivables is low. Accordingly, no impairment allowance has been recognised for expected credit losses on the receivables.

Note 10. Inventories

	Consolidated	
	2022	2021
	\$'000	\$'000
<i>Current assets</i>		
Toongi Pastoral Company supplies	193	243
Korea Materials [i]	12,924	-
	<u>13,117</u>	<u>243</u>
<i>Non-current assets</i>		
Korea Materials - at cost	984	-
	<u>14,101</u>	<u>243</u>

[i] Of the Korean materials inventory recorded at 30 June 2022, \$9,217,000 is recorded at net realisable value.

Amounts recognised in the profit or loss

Write-downs of inventories to net realisable value amounts to \$2,392,000 (30 June 2021: nil). These were recognised as an operating expense during the year ended 30 June 2022 in the consolidated statement of profit or loss and other comprehensive income.

Australian Strategic Materials Ltd
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Note 11. Biological assets

	Consolidated	
	2022	2021
	\$'000	\$'000
<i>Current assets</i>		
Biological asset	451	581
<i>Non-current assets</i>		
Biological asset	1,346	663
	<u>1,797</u>	<u>1,244</u>

Biological assets comprise sheep and cattle owned by ASM's wholly owned subsidiary Toongi Pastoral Company Pty Ltd as part of farming operations on the surrounding land to the Dubbo Project mining lease.

Livestock are classified as current assets if they are to be sold within one year.

Note 12. Property, plant and equipment

	Consolidated	
	2022	2021
	\$'000	\$'000
<i>Non-current assets</i>		
Land and buildings - at cost	46,423	28,895
Less: Accumulated depreciation	(234)	(49)
Decommissioning asset	2,140	-
	<u>48,329</u>	<u>28,846</u>
Plant and equipment - at cost	3,101	2,800
Less: Accumulated depreciation	(594)	(341)
	<u>2,507</u>	<u>2,459</u>
Right of use	638	122
Less: Accumulated depreciation	(128)	(5)
	<u>510</u>	<u>117</u>
Capital Work in Progress	12,831	29
	<u>64,177</u>	<u>31,451</u>

Note 12. Property, plant and equipment (continued)

Reconciliations

Reconciliations of the written down values at the beginning and end of the current and previous financial year are set out below:

Consolidated	Land & Buildings \$'000	Plant & Equipment \$'000	Work in Progress \$'000	Right of Use Asset \$'000	Total \$'000
Balance at 1 July 2020	27,033	336	198	-	27,567
Additions	-	1,027	1,783	122	2,932
Additions through business combinations	-	1,214	-	-	1,214
Disposals	-	(5)	-	-	(5)
Transfers between classes	1,835	117	(1,952)	-	-
Depreciation expense	(22)	(230)	-	(5)	(257)
Balance at 30 June 2021	28,846	2,459	29	117	31,451
Additions	12,951	389	17,639	521	31,500
Disposals	-	(22)	-	-	(22)
Exchange differences	(73)	(88)	-	(6)	(167)
Transfers between classes	4,650	187	(4,837)	-	-
Decommissioning asset	2,140	-	-	-	2,140
Depreciation expense	(185)	(418)	-	(122)	(725)
Balance at 30 June 2022	<u>48,329</u>	<u>2,507</u>	<u>12,831</u>	<u>510</u>	<u>64,177</u>

Note 13. Exploration and evaluation

	Consolidated	
	2022 \$'000	2021 \$'000
Opening balance	96,742	90,665
Expenditure capitalised during the year [i]	8,410	6,077
R&D Tax Incentives on capitalised costs [ii]	(927)	-
Closing balance	<u>104,225</u>	<u>96,742</u>

[i] Additions during the year-ended 30 June 2022 relate to the Optimised Feasibility Study and metallurgical, engineering and test work.

[ii] During the year the group received R&D Tax Incentives of \$927,387 on costs capitalised to exploration and evaluation.

Note 14. Intangibles

The intangible assets are related to the internally generated intellectual property, which was part of the acquisition of the Korean entities.

	Consolidated	
	2022 \$'000	2021 \$'000
Intellectual property (IP)	5,397	5,380
Less: Accumulated amortisation	(1,781)	(712)
	<u>3,616</u>	<u>4,668</u>

Note 15. Trade and other payables

	Consolidated	
	2022	2021
	\$'000	\$'000
<i>Current liabilities</i>		
Trade payables	157	154
Accruals	3,090	973
Other payables	232	75
	3,479	1,202
	3,479	1,202

Trade and other payables represent liabilities for goods and services provided to the Consolidated Entity prior to the end of the financial period which are unpaid. Trade payables are unsecured and are usually paid within 30 days of recognition. Trade and other payables are presented in current liabilities unless payment is not due within 12 months from the reporting date.

Note 16. Interest bearing liabilities

On 10 June 2022, ASM executed two loan facilities with the Korean Development Bank in South Korea. The facilities executed were an Industrial Facility for operating and capital expenditure and an Overdraft Facility. The Industrial Facility is comprised of an operating facility of KRW 15.0bn (\$16.7m) and a capital facility of KRW 4.0bn (\$4.5m). Additionally, ASM entered into a KRW 3.0 bn (\$3.4m) overdraft facility under the same terms as the Loan Facility.

At 30 June 2022, \$16.7m of the Loan Facility has been drawn down and is classified as non-current liabilities as contractual repayment is not within 12 months (\$16.7m contractually repayable in June 2024).

	Consolidated	
	2022	2021
	\$'000	\$'000
<i>Current liabilities</i>		
Lease Liability [i]	176	-
<i>Non-current liabilities</i>		
Bank loan [ii]	16,758	-
Lease liability [i]	337	-
	17,095	-
	17,271	-

[i] Leases

As at 30 June 2022, the Group leased various assets under leases expiring within 1 to 9 years. The interest rates are fixed and payable over a period of the lease term from the inception of the lease. These leases are effectively secured as the rights to the leased assets recognised in the financial statements revert to the lessor in the event of default.

[ii] Bank loans

Secured liabilities and assets pledged as security

The Korea Development Bank loan facility is not secured against any Group assets.

Fair value

For the majority of the borrowings, the fair values approximate their carrying amounts, since the interest payable on those borrowings is either close to current market rates or the borrowings are of a short-term nature.

Australian Strategic Materials Ltd
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Note 16. Interest bearing liabilities (continued)

As at the year-ended 30 June 2022, the Group had:

- \$24.6m Industrial Loan Facility, \$16.7m is drawn representing the operating portion of the facility, the capital facility of \$4.5m is undrawn
- \$3.4m overdraft facility is undrawn

The interest rate on these loans are fixed upon draw down. The interest on the operating Industrial Facility loan is 4.22% being the KDB 2-year industrial financial debenture rate (on date of transfer) + 1.05% p.a.

Debt covenants

There are no debt covenants associated with the Korea Development Bank loan facility.

Note 17. Provisions

	Consolidated	
	2022	2021
	\$'000	\$'000
<i>Current liabilities</i>		
Annual leave	445	95
Long service leave	22	-
Other	12	64
	<u>479</u>	<u>159</u>
<i>Non-current liabilities</i>		
Long service leave	471	27
Provision for decommissioning ¹	2,140	-
	<u>2,611</u>	<u>27</u>
	<u><u>3,090</u></u>	<u><u>186</u></u>

¹ During the period, ASM subsidiary Korean Strategic Metals (KSM) executed a land lease which included an obligation to restore its site to its original state on completion, ASM has recognised this restoration liability as a provision for decommissioning at 31 December 2021. This provision for decommissioning represents the discounted value of the present obligation to decommission, dismantle and rehabilitate certain items of property, plant and equipment. The discounted value reflects a combination of management's assessment of the nature and extent of the work required, estimates of the future cost of performing the work required, the expected timing of cash flows and the discount rate applied. Changes to one or more of these assumptions is likely to result in a change to the carrying value of the provision and the related asset or a change to profit and loss in accordance with the Group's accounting policy stated in Note 1.

Amounts not expected to be settled within the next 12 months

The current provision for employee benefits includes all unconditional entitlements where employees have completed the required period of service and also those where employees are entitled to pro-rata payments in certain circumstances. The entire amount is presented as current, since the Consolidated entity does not have an unconditional right to defer settlement. However, based on past experience, the Consolidated entity does not expect all employees to take the full amount of accrued leave or require payment within the next 12 months.

Australian Strategic Materials Ltd
Notes to the consolidated financial statements
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Note 17. Provisions (continued)

The following amounts reflect leave that is not expected to be taken within the next 12 months:

	Consolidated	
	2022	2021
	\$'000	\$'000
Employee benefits obligation expected to be settled after 12 months	224	25

Note 18. Unearned revenue

	Consolidated	
	2022	2021
	\$'000	\$'000
<i>Current liabilities</i>		
Unearned revenue [i]	6,554	-

[i] Unearned revenue relates to a cash grant from the South Korean government to support the development of the Korean Metals Plant. The grant will be recognised as an offset to the assets that it relates to and will be recognised in the income statement on a systematic basis over the life of the asset through a reduced depreciation expense. Should any grant criteria not be fully satisfied by 31 December 2022 a portion of the grant may be required to be repaid.

Note 19. Issued capital

	Consolidated			
	2022	2021	2022	2021
	Shares	Shares	\$'000	\$'000
Ordinary shares - fully paid	141,956,062	139,506,006	228,425	207,162

Movements in ordinary share capital

Details	Date	Shares	Issue price	\$'000
Balance	1 July 2020	5		1
Issue of shares as part of demerger		119,049,773	\$0.95	113,000
Consideration for purchase of RMR group		1,306,417	\$3.49	4,559
Share placement		13,541,666	\$4.80	65,000
Rights issue		5,608,145	\$4.80	26,919
Less: Transactions costs arising on share issue		-	-	(2,633)
Deferred tax credit recognised directly into equity		-	-	316
Balance	30 June 2021	139,506,006		207,162
Issue of shares in accordance with subscription agreement		2,450,056	\$8.90	21,816
Less: Transactions costs arising on share issue		-	-	(538)
Deferred tax credit recognised directly into equity		-	-	(15)
Balance	30 June 2022	141,956,062		228,425

Ordinary shares

Ordinary shares entitle the holder to participate in dividends and the proceeds on the winding up of the Company in proportion to the number of and amounts paid on the shares held. The fully paid ordinary shares have no par value and the Company does not have a limited amount of authorised capital.

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Note 19. Issued capital (continued)

On a show of hands every member present at a meeting in person or by proxy shall have one vote and upon a poll each share shall have one vote.

On 16 May 2022, the Company finalised \$21,816,000 (before costs) subscription with KCF Energy Co. Ltd through the issue of 2,450,056 shares at an issue price of \$8.90 per share.

Note 20. Reserves

	Consolidated	
	2022	2021
	\$'000	\$'000
Foreign currency reserve	(781)	9
Share-based payments reserve	1,793	917
Capital contribution reserve	11,324	11,324
	<u>12,336</u>	<u>12,250</u>

Foreign currency reserve

The reserve is used to recognise exchange differences arising from the translation of the financial statements of foreign operations to Australian dollars. It is also used to recognise gains and losses on hedges of the net investments in foreign operations.

Note 21. Accumulated losses

	Consolidated	
	2022	2021
	\$'000	\$'000
Accumulated losses at the beginning of the financial year	(16,866)	(16,083)
Loss after income tax benefit for the year	(24,275)	(783)
Accumulated losses at the end of the financial year	<u>(41,141)</u>	<u>(16,866)</u>

Note 22. Remuneration of auditors

During the financial year the following fees were paid or payable for services provided by PricewaterhouseCoopers, the auditor of the Company, and its network firms:

	Consolidated	
	2022	2021
	\$	\$
<i>Audit services - PricewaterhouseCoopers</i>		
Audit or review of the financial statements	<u>119,210</u>	<u>92,000</u>
<i>Other services - PricewaterhouseCoopers</i>		
Tax compliance services	76,540	-
Tax advisory services	18,870	41,000
Consulting services	10,060	-
	<u>105,470</u>	<u>41,000</u>

Note 23. Contingent liabilities

The Consolidated Entity has contingent liabilities estimated at up to \$4,247,801 for the potential acquisition of parcels of land surrounding the Dubbo Project (2021: \$5,375,000). The landholders have the right to require the Consolidated Entity to acquire their property when the development consent conditions for the Dubbo Project have been met.

In June 2022, ASM and Hyundai Engineering signed an agreement to provide the Engineering, Procurement, Construction and Design for the Dubbo project. The contract is for \$46,200,000 after an initial non-refundable payment of A\$500,000 is paid to Hyundai. This payment was included in payables at 30 June 2022. ASM must issue a Notice to Proceed for the remainder of the contract to come into effect. If the Notice to Proceed is not provided within 12 months the parties can terminate with no obligation. As at 30 June 2022, a notice to proceed has not been issued.

Note 24. Commitments

Mineral tenement leases

In order to maintain current rights of tenure to exploration and mining tenements, the Consolidated Entity will be required to outlay amounts of approximately \$100,000 within the next twelve months (2021: \$179,000). These costs are discretionary, however if the expenditure commitments are not met then the associated exploration and mining leases may be relinquished.

Capital commitments

The Consolidated Entity has capital commitments estimated at \$1,419,177 for the acquisition of parcels of land surrounding the Dubbo Project (2021: \$2,623,000). The amount to be paid is based upon a multiple of market values and is subject to movement. The landholders have the right to require Australian Strategic Materials (Holdings) Limited to acquire their property as provided for under the agreement with Australian Strategic Materials (Holdings) Limited as development consent conditions have been met for the Dubbo Project. In addition, \$1,306,949 has been committed regarding activities for the Dubbo Project.

Commitments related to capital purchases related to the Korean Metallisation Plant are \$5,745,583 and inventory commitments of \$14,452,000.

Note 25. Related party transactions

Parent entity

Australian Strategic Materials Ltd is the parent entity.

Subsidiaries

Interests in subsidiaries are set out in note 27.

Key management personnel

Disclosures relating to key management personnel are set out in note 29 and the remuneration report included in the Directors' report.

Transactions with related parties

The following transactions occurred with related parties:

	Consolidated	
	2022	2021
	\$	\$
Purchase of goods and services from other related parties:		
Nuclear IT ¹	114,277	4,371
Alkane Resources	430,156	-
Gandel Metals Pty Ltd	152,974	-

¹ From 1 March 2022 Nuclear IT ceased to be a related entity upon resignation of Director.

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Note 25. Related party transactions (continued)

Nuclear IT, a Director related entity, provides information technology consulting services to the Consolidated Entity which includes the coordination of the purchase of information technology hardware and software.

Alkane Resources, a Director related entity, for personnel and office services under its ongoing Trade Service Agreement with ASM.

Gandel Metals Pty Ltd, a Director related entity, for travel related services.

Receivable from and payable to related parties

As at 30 June 2022, amounts totalling \$24,531 remained payable to Gandel Metals Pty Ltd for travel related services (2021: nil).

Loans to/from related parties

There were no loans to or from related parties at the current and previous reporting date.

Terms and conditions

All transactions were made on normal commercial terms and conditions and at market rates.

Note 26. Parent entity information

Set out below is the supplementary information about the parent entity.

Statement of profit or loss and other comprehensive income

	Parent	
	2022	2021
	\$'000	\$'000
(Loss)/Profit after income tax	(10,699)	4,631
Total comprehensive (Loss)/Profit	(10,699)	4,631

Balance sheet

	Parent	
	2022	2021
	\$'000	\$'000
Total current assets	48,515	90,613
Total Assets	211,483	208,288
Total current liabilities	1,727	333
Total liabilities	(7,909)	(338)
Equity		
Issued capital	228,425	207,162
Share-based payments reserve	1,793	917
Capital contributions reserve	11,324	11,323
Accumulated losses	(22,150)	(11,452)
Total equity	<u>219,392</u>	<u>207,950</u>

Guarantees entered into by the parent entity in relation to the debts of its subsidiaries

The parent entity had no guarantees in relation to the debts of its subsidiaries as at 30 June 2022 and 30 June 2021.

Contingent liabilities

The parent entity had no contingent liabilities as at 30 June 2022 and 30 June 2021.

Australian Strategic Materials Ltd
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Note 26. Parent entity information (continued)

Capital commitments - Property, plant and equipment

The parent entity had no capital commitments for property, plant and equipment as at 30 June 2022 and 30 June 2021.

Significant accounting policies

The accounting policies of the parent entity are consistent with those of the Consolidated entity, as disclosed in note 1, except for the following:

- Investments in subsidiaries are accounted for at cost, less any impairment, in the parent entity.
- Investments in associates are accounted for at cost, less any impairment, in the parent entity.
- Dividends received from subsidiaries are recognised as other income by the parent entity and its receipt may be an indicator of an impairment of the investment.

Note 27. Interests in subsidiaries

The consolidated financial statements incorporate the assets, liabilities and results of the following subsidiaries in accordance with the accounting policy described in note 1:

Name	Principal place of business / Country of incorporation	Ownership interest	
		2022 %	2021 %
Australian Strategic Materials (Holdings) Ltd	Australia	100%	100%
Toongi Pastoral Company Pty Ltd	Australia	100%	100%
ASM Korea Co. Ltd	South Korea	100%	100%
KSM Technology Co. Ltd	South Korea	95%	95%
ASM Metals Corporation Pty Ltd	Australia	100%	100%
ASM Technology Corporation Pty Ltd	Australia	100%	100%
KSM Metals Limited	South Korea	100%	100%

Note 28. Reconciliation of loss after income tax to net cash used in operating activities

	Consolidated	
	2022 \$'000	2021 \$'000
Loss after income tax benefit for the year	(24,257)	(809)
Adjustments for:		
Depreciation and amortisation	1,857	970
Finance charges	138	70
Share-based payments	876	917
Loan forgiveness income	-	(4,731)
Inventory - Non-cash movement	(535)	-
Gain / loss on disposal of assets	(2)	-
Unrealised FX gains	1,314	-
Change in operating assets and liabilities:		
Increase in receivables	(1,735)	(633)
Increase in inventory	(14,222)	(239)
Increase in deferred tax asset	(3,952)	(1,165)
Increase in trade and other payables	2,224	858
Increase in other provisions	570	7
Increase in biological assets	130	(460)
Net cash used in operating activities	<u>(37,594)</u>	<u>(5,215)</u>

Australian Strategic Materials Ltd
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Note 28. Reconciliation of loss after income tax to net cash used in operating activities (continued)

Net debt reconciliation

	Consolidated	
	2022	2021
	\$'000	\$'000
Cash and cash equivalents	60,220	93,324
Borrowings - repayable within one year (note 16)	(176)	-
Borrowings - repayable after one year [i]	(17,095)	-
	<hr/>	<hr/>
Net debt	<u>42,949</u>	<u>93,324</u>

[i] Includes long term portion of a lease liability expiring within 1 to 9 years and a industrial loan facility with the Korea Development Bank (drawn portion of the loan facility is \$16.7m)

Note 29. Key management personnel disclosures

Directors

The following persons were Directors of Australian Strategic Materials Ltd during the financial year:

I J Gandel
D G Woodall (resigned 15 July 2022)
N P Earner
D I Chalmers (resigned 1 March 2022)
G M Smith
K J Gleeson (appointed 1 February 2022)

Other key management personnel

The following persons also had the authority and responsibility for planning, directing and controlling the major activities of the Consolidated entity, directly or indirectly, during the financial year:

F Moon
R Smith (appointed 6 July 2021)
J Clifton (appointed 12 July 2021)

Compensation

The aggregate compensation made to Directors and other members of key management personnel of the Consolidated entity is set out below:

	Consolidated	
	2022	2021
	\$	\$
Short-term employee benefits	2,627,098	1,478,571
Post-employment benefits	114,653	59,488
Long-term benefits	12,028	24,158
Share-based payments	876,500	661,409
	<hr/>	<hr/>
	<u>3,630,279</u>	<u>2,223,626</u>

Note 30. Operating segments

Identification of reportable operating segments

The Group has identified its operating segments based on the internal reports that are reviewed and used by the executive management team (the chief decision makers) in assessing performance and in determining the allocation of resources.

Previously, the Group had identified a single segment being the Australian segment. For the year ended 30 June 2022, the Company has reassessed its operating segments and has organised them into three segments as follows:

- Korea: which includes the construction and commissioning of the Korean Metals Plant.
- Dubbo: which includes the evaluation and feasibility of the Dubbo project.
- Corporate: which includes corporate activities and the Pastoral company.

The comparative information has been restated to reflect this.

Intersegment transactions

Any intersegment transactions were made at market rates. Intersegment transactions are eliminated on consolidation.

Intersegment receivables, payables and loans

Intersegment loans are initially recognised at the consideration received. Intersegment loans receivable and loans payable that earn or incur non market interest are not adjusted to fair value based on market interest rates. Intersegment loans are eliminated on consolidation.

Operating segment information

Consolidated 30 June 21	Corporate \$'000	Dubbo Project \$'000	Korea \$'000	Consolidated \$'000
Revenue	1,377	-	-	1,377
Interest income	69	-	-	69
Other Income	5,167	-	47	5,214
	<u>6,613</u>	<u>-</u>	<u>47</u>	<u>6,660</u>
Expenses				
Professional fees and consulting services	(1,698)	(217)	-	(1,915)
Employee remuneration	(1,565)	-	(264)	(1,829)
Depreciation and Amortisation	(87)	-	(883)	(970)
Unrealised foreign exchange loss	(1)	-	-	(1)
Other unallocated	(3,261)	-	(659)	(3,920)
Income tax benefit	1,166	-	-	1,166
	<u>1,167</u>	<u>(217)</u>	<u>(1,759)</u>	<u>(809)</u>

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Notes to the consolidated financial statements
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Note 30. Operating segments (continued)

Consolidated 30 June 21	Corporate \$'000	Dubbo Project \$'000	Korea \$'000	Consolidated \$'000
Assets				
Cash and cash equivalents	93,222	-	102	93,324
Trade and other receivables	457	-	282	739
Inventories	243	-	-	243
Property, plant and equipment ¹	387	28,873	2,191	31,451
Intangibles ¹	-	-	4,668	4,668
Exploration and evaluation ¹	-	96,742	-	96,742
Biological assets ¹	1,244	-	-	1,244
Other	-	20	204	224
Total assets	95,553	125,635	7,447	228,635
Liabilities				
Trade and other payables	387	509	306	1,202
Deferred tax	24,561	-	-	24,561
Provisions	132	54	-	186
Other	-	-	81	81
Total liabilities	25,080	563	387	26,030
¹Additions to non-current assets				
Property, plant and equipment (note 12)	40	1,743	1,149	2,932
Exploration and evaluation (note 13)	-	6,077	-	6,077
Biological assets	326	-	-	326
Intangible (note 14)	-	-	5,342	5,342
	366	7,820	6,491	14,677
Consolidated 30 June 22	Corporate \$'000	Dubbo Project \$'000	Korea \$'000	Consolidated \$'000
Revenue				
Revenue	1,870	-	-	1,870
Interest income	14	-	15	29
Other income	230	-	47	277
	2,114	-	62	2,176
Expenses				
Operating expenses	-	-	(5,825)	(5,825)
Professional fees and consulting services	(5,191)	(554)	-	(5,745)
Employee remuneration	(4,302)	-	(3,925)	(8,227)
Share based payments	(876)	-	-	(876)
Depreciation and Amortisation	(108)	-	(1,749)	(1,857)
Unrealised foreign exchange loss	(410)	-	(965)	(1,375)
Other unallocated	(6,175)	(200)	(120)	(6,495)
Income tax benefit	3,967	-	-	3,967
	(10,981)	(754)	(12,522)	(24,257)

Note 30. Operating segments (continued)

Consolidated 30 June 22	Corporate \$'000	Dubbo Project \$'000	Korea \$'000	Consolidated \$'000
Assets				
Cash and cash equivalents	40,574	-	19,646	60,220
Trade and other receivables	872	-	1,394	2,266
Inventories	193	-	13,908	14,101
Property, plant and equipment ¹	585	33,484	30,108	64,177
Intangibles	-	-	3,616	3,616
Exploration and evaluation ¹	-	104,225	-	104,225
Biological assets ¹	1,797	-	-	1,797
Other	-	20	278	298
Total assets	44,021	137,729	68,950	250,700
Liabilities				
Trade and other payables	1,419	1,054	1,006	3,479
Borrowings	-	-	17,271	17,271
Deferred tax	20,609	-	-	20,609
Provisions	502	-	2,588	3,090
Unearned revenue	-	-	6,554	6,554
Total liabilities	22,530	1,054	27,419	51,003
¹Additions to non-current assets				
Property, plant and equipment (note 12)	187	4,731	26,582	31,500
Exploration and evaluation (note 13)	-	8,410	-	8,410
Biological assets	659	-	-	659
	846	13,141	26,582	40,569

Note 31. Financial risk management

The Group's activities expose it to a variety of financial risks: market risk (including foreign currency risk, price risk and interest rate risk), credit risk and liquidity risk. The Consolidated Entity's overall risk management program focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the financial performance of the Consolidated Entity.

This note presents information about the group's exposure to each of the above risks, their objectives, policies and processes for measuring and managing risk, and the management of capital.

The Board of Directors has overall responsibility for the establishment and oversight of the risk management framework. Management monitors and manages the financial risks relating to the operations of the group through regular reviews of the risks and mitigating strategies.

The Consolidated Entity undertakes certain transactions denominated in foreign currency and is exposed to foreign currency risk through foreign exchange rate fluctuations.

Foreign exchange risk arises from future commercial transactions and recognised financial assets and financial liabilities denominated in a currency that is not the entity's functional currency, which is Australian Dollars (AUD). The risk is measured using sensitivity analysis and cash flow forecasting.

Note 31. Financial risk management (continued)

Market risk

Foreign currency risk

The group operated internationally and is exposed to foreign exchange risk arising from currency exposures with respect to changes in USD/AUD, KRW (Korean Won) /AUD and KRW / USD exchange rates. The Group is exposed to currency risk on purchases that are denominated in a currency other the respective functional currency of Group entities, primarily the United States Dollar (USD) and Korean Won (KRW).

The Groups expenditure obligations in Korea are primarily in KRW. Funding requirements in Korea are met by transfer of USD from the Australian based parent and converted into KRW or deposited into USD accounts. As a result, the Group is exposed to fluctuations in the USD / KRW to Australian currency. These exposures are not subject to a hedging programme.

The Consolidated Group's risk from movements in foreign currency rates, relates to USD held within Australia and Korea and KRW held in Korean Won (KRW).

The risk exposure is minimized by only holding sufficient funds in KRW to meet the immediate cash requirements of the subsidiaries. Once funds are converted to KRW, they are only used to pay expenses in KRW.

The financial assets and liabilities that are exposed to foreign exchange risk at the ends of the reporting period, expressed in Australian dollars are:

	2022 \$'000	2021 \$'000
Cash and cash equivalents - USD	11,073	-
Cash and cash equivalents - KRW	19,646	102
Trade Receivables - KRW	1,156	240
Trade Payables - KRW	(74)	(65)
Borrowings - KRW	(17,095)	-
	<u>14,565</u>	<u>277</u>

Price risk

Commodity price risk in the group primarily results from price fluctuations and the availability of rare earth oxides required by the Korean operations. The Group considers the outlook for rare earths regularly in considering the need for active financial risk management. As the Group continues to progress towards production of a saleable product the Group will monitor and develop a policy to mitigate its exposure to price risk.

Interest rate risk

Interest rate risk is the risk that fair values and cash flows of the Group's financial instruments will be affected by changes in the market interest rates. The group's main interest rate risk arises through its cash and cash equivalents, other financial assets and financial liabilities held within financial institutions. The group minimises this risk by utilising fixed rate instruments where appropriate.

Summarised market risk sensitivity analysis:

	30 June 2022			30 June 2021		
	Carrying Amount \$'000	+100BP \$'000	-100BP \$'000	Carrying Amount \$'000	+100BP \$'000	-100BP \$'000
Financial assets						
Cash-and cash equivalents	60,220	120	(120)	93,324	187	(187)
Receivables (current) ¹	952	2	(2)	393	-	-
Other financial assets	20	-	-	22	-	-
Trade and other payables	7,685	15	(15)	1,202	2	(2)
	<u>68,877</u>	<u>137</u>	<u>(137)</u>	<u>94,941</u>	<u>189</u>	<u>(189)</u>

¹The receivables balance excludes prepayments and tax balances which do not meet the definition of financial assets and liabilities.

Note 31. Financial risk management (continued)

Credit risk

The Consolidated Entity has adopted a lifetime expected loss allowance in estimating expected credit losses to trade receivables through the use of a provisions matrix using fixed rates of credit loss provisioning. These provisions are considered representative across all customers of the Consolidated Entity based on recent sales experience, historical collection rates and forward-looking information that is available.

In determining the recoverability of a trade or other receivable using the expected credit loss model, the group performs a risk analysis considering the type and age of the outstanding receivables, the creditworthiness of the counterparty, contract provisions, letter of credit and timing of payment.

Credit risk arises from cash and cash equivalents, deposits with banks and financial institutions, as well as credit exposure to customers, including outstanding receivables and committed transactions.

The group limits its exposure to credit risk in relation to cash and cash equivalents and other financial assets by only utilising banks and financial institutions with acceptable credit ratings. The Groups cash deposits are all on call or in term deposits and attract a rate of interest at normal short-term money market rates.

Tax receivables and prepayments do not meet the definition of financial assets. The group assesses the credit quality of the customer, taking into account its financial position, past experience and other factors.

Liquidity risk

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

Liquidity risk management involves maintaining sufficient cash on hand or undrawn credit facilities to meet the operating and capital requirements of the business.

Maturity analysis of financial assets and liabilities based on management expectation

The risk implied from the values shown in the table below, reflects a balanced view of cash inflows and outflows:

Liquidity Risk	Within 1 year	1 to 5 years	Over 5 years	Total
Year ended 30 June 2022	\$	\$	\$	\$
Financial Assets				
Cash & cash equivalents	60,220	-	-	60,220
Trade & Other Receivables	2,266	-	-	2,266
	<u>62,486</u>	<u>-</u>	<u>-</u>	<u>62,486</u>
Financial Liabilities				
Trade & Other payables	(10,033)	-	-	(10,033)
Borrowings	(176)	(17,802)	-	(17,978)
	<u>(10,209)</u>	<u>(17,802)</u>	<u>-</u>	<u>(28,011)</u>
Net Maturity	<u>52,277</u>	<u>(17,802)</u>	<u>-</u>	<u>34,475</u>

Australian Strategic Materials Ltd
Notes to the consolidated financial statements
30 June 2022

Note 31. Financial risk management (continued)

Year ended 30 June 2021	Within 1 year \$	1 to 5 years \$	Over 5 years \$	Total \$
Financial Assets				
Cash & cash equivalents	93,324	-	-	93,324
Trade & Other Receivables	739	-	-	739
	<u>94,063</u>	<u>-</u>	<u>-</u>	<u>94,063</u>
Financial Liabilities				
Trade & Other payables	(1,202)	-	-	(1,202)
	<u>92,861</u>	<u>-</u>	<u>-</u>	<u>92,861</u>

The group's financial liabilities generally mature within 3 months, therefore the carrying amount equals the cash flow required to settle the liability.

Note 32. Earnings per share

	Consolidated	
	2022 \$'000	2021 \$'000
Loss after income tax	(24,257)	(809)
Non-controlling interest	(18)	26
Loss after income tax attributable to the owners of Australian Strategic Materials Ltd	<u>(24,275)</u>	<u>(783)</u>
	Cents	Cents
Basic loss per share	(17)	(1)
Diluted loss per share	(17)	(1)
	Number	Number
Weighted average number of ordinary shares used in calculating basic earnings per share	<u>139,808,068</u>	<u>114,644,807</u>
Weighted average number of ordinary shares used in calculating diluted earnings per share	<u>139,808,068</u>	<u>114,644,807</u>

The number of potential ordinary share not considered dilutive are as follows:

Performance rights	<u>3,204,928</u>
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Accounting policy for earnings per share

Basic earnings per share

Basic earnings per share is calculated by dividing the profit attributable to the owners of Australian Strategic Materials Ltd, 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 financial year.

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 income tax effect of interest and other financing costs associated with 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.

Note 33. Capital risk management

The group's objectives when managing capital are to safeguard the ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital. In order to maintain or adjust the capital structure, the group may return capital to shareholders, pay dividends to shareholders, issue new shares or sell assets.

Note 34. Share-based payments

Share-based payments are based compensation benefits are provided to employees via the group's incentive plans. The incentive plans consist of short-term and long-term incentive plans for the Group's Executives. Information relating to these plans is set out in the remuneration report and below.

The fair value of rights granted under the short-term and long-term incentive plans is recognised as an employee benefits expense with corresponding increase in equity. The total amount to be expensed is determined by reference to the fair value of the rights granted, which includes any market performance conditions and the impact of any non-vesting conditions but excludes the impact of any service non-market performance vesting conditions.

Non-market vesting conditions and the impact of service conditions are included in assumptions about the number of rights that are expected to vest. The total expense is recognised over the vesting period, which is the period over which all of the specified vesting conditions are to be satisfied. At the end of each period, the entity revises its estimates of the number of rights that are expected to vest based on the non-market vesting and service conditions. It recognises the impact of the revision to original estimates, if any, in the statement of profit or loss and other comprehensive income, with a corresponding adjustment to equity.

The initial estimate of fair value for market based and non-vesting conditions is not subsequently adjusted for differences between the number of rights granted and number of rights that vest.

When the rights are exercised, the appropriate number of shares are transferred to the employee. The proceeds received are net of any directly attributable transaction costs are credited directly to equity.

The fair value of deferred shares granted to employees for nil consideration under the employee share scheme is recognised as an expense over the relevant service period, being the year to which the incentive relates and the vesting period of the shares. The fair value is measured using the Monte Carlo valuation method for long-term incentive plans and Black-Scholes valuation method for short-term incentive plans at the grant date of the shares and is recognised in equity in the share-based payment reserve.

The number of shares expected to vest is estimated based on the non-market vesting conditions. The estimates are revised at the end of each reporting period and adjustments are recognised in profit or loss and the share-based payment reserve.

Executives

The Company's remuneration framework is set out in the remuneration report, including all details of the performance rights plans, the associated performance hurdles and vesting criteria. Participation in the plans is at the discretion of the Board of Directors and no individual has a contractual right to participate in the plans or to receive any guaranteed benefits.

Participation is currently restricted to Executives within the group. The following tables illustrate the number and weighted average fair value of, and movements in, share rights during the year.

Note 34. Share-based payments (continued)

Set out below are summaries of performance rights and options granted under the plan:

	Number of rights	
	2022	2021
Outstanding at the beginning of the financial year	3,000,000	-
Granted [i]	342,258	3,000,000
Forfeited	-	-
Exercised	-	-
Expired	-	-
Outstanding at the end of the financial year [ii]	<u>3,342,258</u>	<u>3,000,000</u>

[i] Of the 342,258 granted during the year, 125,248 related to options and 217,010 related to performance rights. The options granted have a weighted average exercise price of \$6.38. On and from the vesting date, each option entitles the holder to be issued with one share upon the payment of the exercise price and the transition rights will lapse upon cessation of employment. For the purpose of valuation, the contractual life is determined as 5 to 7 years.

[ii] At 30 June 2022, 3,342,258 of the performance rights and options granted have not vested and are not exercisable. The weighted average remaining contractual life of performance rights is 1.39 years (30 June 2021: 2.28 years).

2022							
Grant date	Expiry date	Exercise price	Balance at the start of the year	Granted	Exercised	Expired/forfeited/other	Balance at the end of the year
19/05/2020	13/10/2023	-	1,800,000	-	-	-	1,800,000
19/05/2020	13/10/2023	-	1,200,000	-	-	-	1,200,000
07/02/2022	05/07/2024	-	-	27,357	-	-	27,357
07/02/2022	^[i]	\$6.38	-	62,624	-	-	62,624
07/02/2022	05/07/2026	-	-	27,357	-	-	27,357
07/02/2022	^[ii]	\$6.38	-	62,624	-	-	62,624
24/02/2022	30/06/2022	-	-	14,057	-	-	14,057
24/02/2022	30/06/2022	-	-	14,057	-	-	14,057
28/02/2022	30/06/2022	-	-	46,571	-	-	46,571
28/02/2022	30/06/2022	-	-	46,571	-	-	46,571
25/03/2022	30/06/2022	-	-	20,520	-	-	20,520
25/03/2022	30/06/2022	-	-	20,520	-	-	20,520
			<u>3,000,000</u>	<u>342,258</u>	<u>-</u>	<u>-</u>	<u>3,342,258</u>

[i] These options can be exercised at any point between the end of the service condition, being 12 July 2024 and the end of the employment period which for the purpose of valuation was considered to be between 5 and 7 years.

[ii] These options can be exercised at any point between the end of the service condition, being 12 July 2026 and the end of the employment period which for the purpose of valuation was considered to be between 5 and 7 years.

2021							
Grant date	Expiry date	Exercise price	Balance at the start of the year	Granted	Exercised	Expired/forfeited/other	Balance at the end of the year
19/05/2020	13/10/2023	\$0.00	-	1,800,000	-	-	1,800,000
19/05/2020	13/10/2023	\$0.00	-	1,200,000	-	-	1,200,000
			<u>-</u>	<u>3,000,000</u>	<u>-</u>	<u>-</u>	<u>3,000,000</u>

Note 34. Share-based payments (continued)

FY21/22 Executive STI and LTI

Executives may receive variable remuneration in the form of short-term incentives ('STI') of up to 30% of their annual salary package. STI payments are based on the Board's assessment of the executives' performance towards achieving key Company objectives over the relevant period. Annually the Remuneration Committee reviews the performance of each executive prior to or after the reporting date. The Remuneration Committee then determines the amount of STI to be allocated to each executive with approval from the Board. The total potential STI available for award is at the Board's discretion. STI's are made through the issue of performance rights after the reporting period. Where an executive resigns during or after the relevant financial year, it remains at the discretion of the Board as to whether any of the STI is payable for the relevant financial year.

The focus of the 2021/22 financial year was on the Company's progress towards the further development of the Korean Metals Plant and the Dubbo project.

The long-term incentives ('LTI') include performance rights awarded to executives. Executives may participate in the Executive Incentive Plan to receive variable remuneration of up to 30% of their annual salary package. Shares are awarded to executives over a period of three years based on long-term incentive measures.

LTI and STI awards for the Executive team in the 2022 financial year FY22 STI were based on non-market scorecard measures and weighting, with the estimated value of the grant determined at the reporting date.

Performance Hurdle	Grant date	Share price at grant date	Exercise price	Fair value at grant date ¹	Valuation Model
Non-market	24/02/2022	\$7.20	-	\$7.20	Black-Scholes
Non-market	24/02/2022	\$7.20	-	\$7.20	Black-Scholes
Non-market	28/02/2022	\$8.14	-	\$8.14	Black-Scholes
Non-market	28/02/2022	\$8.14	-	\$8.14	Black-Scholes
Non-market	25/03/2022	\$8.13	-	\$8.13	Black-Scholes
Non-market	25/03/2022	\$8.13	-	\$8.13	Black-Scholes

¹ The performance rights were determined to have a 0% probability of vesting at grant date and at 30 June 2022 and no share-based payments expense was recognised during FY22. These performance rights were cancelled on 8 August 2022.

Sign-on Rights

LTI's were issued to the Chief Operating Officer and Chief Financial Officer as sign-on incentives for the commencement of their employment. These sign-on rights had a service condition only and there were no performance conditions associated with these options.

Performance Hurdle	Grant date	Share price at grant date	Exercise price	Expected volatility	Dividend yield	Risk-free interest rate	Fair value at grant date	Valuation Model
Service condition	16/06/2021	\$6.21	\$6.38	70.00%	-	1.09%	\$3.90	Monte Carlo
Service condition	16/06/2021	\$6.21	\$6.38	70.00%	-	1.09%	\$3.90	Monte Carlo
Service condition	22/06/2021	\$6.40	-	70.00%	-	1.09%	\$6.40	Black-Scholes
Service condition	22/06/2021	\$6.40	-	70.00%	-	1.09%	\$6.40	Black-Scholes

Expenses arising from share-based payment transactions

	2022 \$'000	2021 \$'000
Performance rights	751	917
Options	125	-
	<u>876</u>	<u>917</u>

Note 35. Events after the reporting period

During July 2022, Rowena Smith was appointed Chief Executive Officer and David Woodall resigned from his position as Managing Director.

On 19 July 2022, David Woodall held 3,000,000 performance rights, of these performance rights 2,000,000 were forfeited and 1,000,000 vested through the issue of ordinary shares in the Company.

On 8 September 2022, the Company announced it signed a binding agreement for the sale of neodymium praseodymium metal produced at its Korean Metals Plant with Korean company NS World Co., Ltd. The agreement is for the sale and delivery of 10 tonnes of neodymium praseodymium metal ingot from September 2022 to December 2022.

No other matter or circumstance has arisen since 30 June 2022 that has significantly affected, or may significantly affect the Consolidated entity's operations, the results of those operations, or the Consolidated entity's state of affairs in future financial years.

Australian Strategic Materials Ltd
Directors' declaration
30 June 2022

In the Directors' opinion:

- the attached financial statements and notes comply with the *Corporations Act 2001*, the Accounting Standards, the Corporations Regulations 2001 and other mandatory professional reporting requirements;
- the attached financial statements and notes comply with International Financial Reporting Standards as issued by the International Accounting Standards Board as described in note 1 to the financial statements;
- the attached financial statements and notes give a true and fair view of the Consolidated entity's financial position as at 30 June 2022 and of its performance for the financial year ended on that date; and
- subject to the matters set out in note 1 there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

The Directors have been given the declarations required by section 295A of the *Corporations Act 2001*.

Signed in accordance with a resolution of Directors made pursuant to section 295(5)(a) of the *Corporations Act 2001*.

On behalf of the Directors



I Gandel
Chairman

21 September 2022



Independent auditor's report

To the members of Australian Strategic Materials Limited

Report on the audit of the financial report

Our opinion

In our opinion:

The accompanying financial report of Australian Strategic Materials Limited (the Company) and its controlled entities (together the Group) is in accordance with the *Corporations Act 2001*, including:

- (a) giving a true and fair view of the Group's financial position as at 30 June 2022 and of its financial performance for the year then ended
- (b) complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

What we have audited

The Group financial report comprises:

- the consolidated balance sheet as at 30 June 2022
- the consolidated statement of changes in equity for the year then ended
- the consolidated statement of cash flows for the year then ended
- the consolidated statement of profit or loss and other comprehensive income for the year then ended
- the notes to the consolidated financial statements, which include significant accounting policies and other explanatory information
- the directors' declaration.

Basis for opinion

We conducted our audit in accordance with Australian Auditing Standards. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the financial report* section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

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 financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

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Liability limited by a scheme approved under Professional Standards Legislation.

Material uncertainty related to going concern

We draw attention to Note 1 in the financial report, which indicates that the Group has cash outflows from operating and investing activities of \$71.1 million for the year ended 30 June 2022. At 30 June 2022, the Group had cash on hand of \$60.2 million. The Group has net working capital as at 30 June 2022 of \$65.4 million and outstanding commitments of \$23.0 million. The ongoing operation of the Group will remain dependent upon raising further additional funding from shareholders or other parties. These conditions, along with other matters set forth in Note 1, indicate that a material uncertainty exists that may cast significant doubt about the Group's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

Our audit approach

An audit is designed to provide reasonable assurance about whether the financial report is free from material misstatement. Misstatements may arise due to fraud or error. They are considered material if individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial report.

We tailored the scope of our audit to ensure that we performed enough work to be able to give an opinion on the financial report as a whole, taking into account the geographic and management structure of the Group, its accounting processes and controls and the industry in which it operates.



Materiality	Audit scope	Key audit matters
<ul style="list-style-type: none"> For the purpose of our audit we used overall Group materiality of \$2,540,000, which represents approximately 1% of the Group's total assets. We applied this threshold, together with qualitative considerations, to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements on the financial report as a whole. We chose total assets of the Group because, in our view, it is the benchmark against 	<ul style="list-style-type: none"> Our audit focused on where the Group made subjective judgements; for example, significant accounting estimates involving assumptions and inherently uncertain future events. The accounting processes are structured around a Group finance function at its head office in Perth. 	<ul style="list-style-type: none"> Amongst other relevant topics, we communicated the following key audit matter to the Audit Committee: <ul style="list-style-type: none"> Carrying value of exploration and evaluation assets These are further described in the <i>Key audit matters</i> section of our report.



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which the performance of the Group is most commonly measured.

- We utilised a 1% threshold based on our professional judgement, noting it is within the range of commonly acceptable thresholds.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial report for the current period. The key audit matters were addressed in the context of our audit of the financial report as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. Further, any commentary on the outcomes of a particular audit procedure is made in that context.

Key audit matter	How our audit addressed the key audit matter
<p><i>Carrying value of exploration and evaluation assets (Refer to note 13 of the financial statements)</i></p> <p>The Group's Dubbo Project is a large exploration asset that is subject to the impairment indicators assessment required by AASB 6 <i>Exploration for and Evaluation of Mineral Resources</i>. Due to the relative size of this balance in the consolidated balance sheet, as well as the judgemental application of AASB 6 this has been considered a key audit matter.</p> <p>Judgement was required by the Group to assess whether there were indicators of impairment of the capitalised exploration and evaluation assets due to the need to make estimates and assumptions about future events and circumstances, such as whether the mineral resources may be economically viable to mine in the future.</p>	<p>We performed the following procedures:</p> <ul style="list-style-type: none">• Assessed whether the Group retained right of tenure for all of its exploration licence areas by obtaining licence status records from relevant government databases.• For a sample of additions to exploration and evaluation assets during the year, inspected relevant supporting documentation such as invoices, and compared the amounts to accounting records.• For a sample of additions to exploration and evaluation assets during the year, tested the nature of the expense being capitalised and whether this was in accordance with AASB 6.• Inquired of management and directors as to the future plans for the capitalised exploration and evaluation assets and assessed plans for future expenditure to meet minimum licence requirements.

Other information

The directors are responsible for the other information. The other information comprises the information included in the annual report for the year ended 30 June 2022, but does not include the financial report and our auditor's report thereon. Prior to the date of this auditor's report, the other information we obtained included the Director's Report, Shareholders' Information and Company Directory. We expect the remaining other information to be made available to us after the date of this auditor's report.



Our opinion on the financial report does not cover the other information and accordingly we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial report, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial report or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed on the other information that we obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

When we read the other information not yet received, if we conclude that there is a material misstatement therein, we are required to communicate the matter to the directors and use our professional judgement to determine the appropriate action to take.

Responsibilities of the directors for the financial report

The directors of the Company are responsible for the preparation of the 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 financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

In preparing the financial report, the directors are responsible for assessing the ability of the Group to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial report

Our objectives are to obtain reasonable assurance about whether the financial report as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Australian Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial report.

A further description of our responsibilities for the audit of the financial report is located at the Auditing and Assurance Standards Board website at:

https://www.auasb.gov.au/admin/file/content102/c3/ar1_2020.pdf. This description forms part of our auditor's report.



Report on the remuneration report

Our opinion on the remuneration report

We have audited the remuneration report included in pages 7 to 15 of the directors' report for the year ended 30 June 2022.

In our opinion, the remuneration report of Australian Strategic Materials Limited for the year ended 30 June 2022 complies with section 300A of the *Corporations Act 2001*.

Responsibilities

The directors of the Company are responsible for the preparation and presentation of the remuneration report in accordance with section 300A of *the Corporations Act 2001*. Our responsibility is to express an opinion on the remuneration report, based on our audit conducted in accordance with Australian Auditing Standards.

PricewaterhouseCoopers

PricewaterhouseCoopers

Helen Bathurst

Helen Bathurst
Partner

Perth
21 September 2022

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Australian Strategic Materials Ltd
Shareholder information
30 June 2022

The shareholder information set out below was applicable as at 21 September 2022.

Equity security holders

Unquoted equity securities

There are no unquoted equity securities.

Substantial holders

There are no substantial holders in the Company.

Voting rights

The voting rights attached to ordinary shares are set out below:

Ordinary shares

On a show of hands every member present at a meeting in person or by proxy shall have one vote and upon a poll each share shall have one vote.

There are no other classes of equity securities.

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