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Australian Strategic Materials Ltd

ABN 90 168 368 401

Interim Report - 31 December 2021



Australian Strategic Materials Ltd
Directors' report
31 December 2021

The directors present their report, together with the financial statements, on the consolidated entity Australian Strategic Materials Ltd ('Group', 'Company', 'parent entity' or 'ASM') and the entities it controlled at the end of, or during, the period ended 31 December 2021.

Directors

The following persons were directors of ASM during the whole of the financial period and up to the date of this report, unless otherwise stated:

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

Principal activities

ASM is an emerging integrated producer of critical metals for advanced and clean technologies.

The Group's principal activities in the period ended 31 December 2021, were:

- The commencement of hot commissioning at the Korean Metals Plant and production of its first ingots of neodymium metal from the neodymium furnace. The construction and installation of further plant modules continues.
- Completion of the Optimisation Feasibility Study ('OFS') 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.
- Progression of the conditional framework agreement, with the South Korean investor consortium due diligence completed in January 2022. The USD\$250 million conditional framework agreement is for 20% equity interest in the Dubbo Project, and contemplates an offtake agreement for permanent magnet alloy from ASMs Korean Metals Plant to support the Korean permanent magnet manufacturing industry.
- 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.

ASM is advancing the metallisation of critical metal oxides to create a range of value-added metals (including neodymium-iron-boron, titanium and zirconium) at its Korean Metals Plant from market-available precursors and, in time, the Dubbo Project.

Dividends

There were no dividends paid, recommended or declared during the current or previous financial period.

Review of financial conditions

The loss for the Group after providing for income tax amounted to \$8,741,000 (31 December 2020: profit of \$2,606,000).

The Group has cash outflows from operating and investing activities of \$36,442,000 (31 December 2020: \$6,118,000) for the period ended 31 December 2021. At 31 December 2021, the Group had cash on hand of \$56,882,000 (31 December 2020: \$12,426,000). These funds will be used for the construction of the Korean metals plant, Dubbo FEED, exploration obligations and associated corporate expenses.

Going Concern

Based on the Group's cash flow forecast, the Group will require additional funding in the next 12 months from the date of the half-year financial report 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.

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.

Included within the financial report for the half year ended 31 December 2021, is the Independent auditor's review report which includes an emphasis of matter paragraph regarding 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 auditors' review report.

Review of operations

Korea

In November 2021, ASM commenced hot commissioning on its neodymium furnace at the Korea Metals Plant which included firing up the plant's furnaces, processing feed material and casting the plant's first ingots of neodymium metal. This represented the first phase of commissioning activities, with additional modules of the Korean Metals Plant undergoing construction and installation.

The first phase commissioning activities are planned to continue through the first half of 2022, with the full scale, 5,200tpa plant due for completion in the second half of calendar year 2022.

In December 2021, ASM received a cash grant from the South Korean government of \$4,962,000. The purpose of the cash grant received was to support the development of the Korean Metals Plant.

Dubbo

In December 2021, ASM completed the Optimisation Feasibility Study ('OFS') for the Dubbo Project. The OFS simplifies 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 (halving water consumption), refurbishment of the railway line (which simplifies project logistics and will provide new categories of local entry level 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.

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.

Corporate

Corporate activities during the period ended 31 December 2021 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.

Significant changes in the state of affairs

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

Australian Strategic Materials Ltd
Directors' report
31 December 2021

Matters subsequent to the end of the financial period

On 6 January 2022, ASM executed an agreement to purchase a parcel of land surrounding the Dubbo Project for \$1,147,500. The parcel of land purchased is included in the value of Dubbo land parcel commitments disclosed in Note 15.

On 24 January 2022, the consortium of South Korean Investors, comprising Cerritos Holdings Co., Ltd, Kamur Partners LLC and ACE Equity Partners LLC, successfully completed due diligence on the Dubbo Project.

On 25 February 2022, ASM and Hyundai Engineering Corporation Co., Ltd., signed a Heads of Agreement to exclusively negotiate the FEED and the Engineering Procurement and Construction ('EPC') for the Dubbo Project.

No other matter or circumstance has arisen since 31 December 2021 that has significantly affected, or may significantly affect the Group's operations, the results of those operations, or the Group's state of affairs in future financial years.

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.

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 306(3)(a) of the Corporations Act 2001.

On behalf of the directors



D G Woodall
Director

11 March 2022



Auditor's Independence Declaration

As lead auditor for the review of Australian Strategic Materials Limited for the half-year ended 31 December 2021, I declare that to the best of my knowledge and belief, there have been:

- (a) no contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the review, and
- (b) no contraventions of any applicable code of professional conduct in relation to the review.

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

Helen Bathurst

Helen Bathurst
Partner
PricewaterhouseCoopers

Perth
11 March 2022

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Australian Strategic Materials Ltd

Contents

31 December 2021

Consolidated statement of profit or loss and other comprehensive income	6
Consolidated balance sheet	7
Consolidated statement of changes in equity	8
Consolidated statement of cash flows	9
Notes to the consolidated financial statements	10
Directors' declaration	17
Independent auditor's review report to the members of Australian Strategic Materials Ltd	18

General information

The financial statements cover Australian Strategic Materials Ltd as a Group consisting of Australian Strategic Materials Ltd and the entities it controlled at the end of, or during, the period. 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 WA 6005

A description of the nature of the Group'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 11 March 2022.

Australian Strategic Materials Ltd
Consolidated statement of profit or loss and other comprehensive income
For the period ended 31 December 2021

	Note	Consolidated	
		31 Dec 2021 \$'000	31 Dec 2020 \$'000
Revenue	3	642	496
Other income	4	120	5,068
Expenses			
Operating expenses	5	(1,371)	-
Net foreign exchange loss		(317)	(10)
Professional fees and consulting services		(2,341)	(1,060)
Employee remuneration		(3,432)	(313)
Directors' fees and salaries		(633)	(599)
General and administration expenses		(1,759)	(985)
Pastoral company expenses		(1,303)	(647)
Depreciation and amortisation expense		(772)	(91)
Fair value gain on biological assets		458	330
(Loss)/Profit before income tax benefit		(10,708)	2,189
Income tax benefit		1,967	417
(Loss)/Profit after income tax benefit for the period attributable to the owners of Australian Strategic Materials Ltd		(8,741)	2,606
Other comprehensive loss			
<i>Items that may be reclassified subsequently to profit or loss</i>			
(Loss)/gain on translation of foreign operations:		-	(1)
- Members of the parent		(422)	(43)
- Non-controlling interest		(18)	-
Other comprehensive loss for the period, net of tax		(440)	(44)
Total comprehensive income for the period attributable to the owners of Australian Strategic Materials Ltd		(9,181)	2,562
		Cents	Cents
Basic earnings per share		(6.27)	2.18
Diluted earnings per share		(6.27)	2.13

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 31 December 2021

		Consolidated	
	Note	31 Dec 2021	30 June 2021
		\$'000	\$'000
Assets			
Current assets			
Cash and cash equivalents		56,882	93,324
Trade and other receivables		1,398	739
Inventories	6	11,761	243
Biological assets		641	581
Total current assets		<u>70,682</u>	<u>94,887</u>
Non-current assets			
Property, plant and equipment	7	50,482	31,451
Exploration and evaluation	8	101,475	96,742
Intangibles	9	4,129	4,668
Biological assets		1,022	663
Other		317	224
Total non-current assets		<u>157,425</u>	<u>133,748</u>
Total assets		<u>228,107</u>	<u>228,635</u>
Liabilities			
Current liabilities			
Trade and other payables	10	3,753	1,202
Provisions		257	159
Unearned revenue	12	4,869	-
Other		22	22
Total current liabilities		<u>8,901</u>	<u>1,383</u>
Non-current liabilities			
Deferred tax		22,633	24,561
Provisions	11	2,703	27
Other		49	59
Total non-current liabilities		<u>25,385</u>	<u>24,647</u>
Total liabilities		<u>34,286</u>	<u>26,030</u>
Net assets		<u>193,821</u>	<u>202,605</u>
Equity			
Issued capital		207,122	207,162
Reserves	13	12,265	12,250
Accumulated losses		(25,607)	(16,866)
Equity attributable to the owners of Australian Strategic Materials Ltd		<u>193,780</u>	<u>202,546</u>
Non-controlling interest		41	59
Total equity		<u>193,821</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 period ended 31 December 2021

Consolidated	Contributed equity \$'000	Capital contribution \$'000	Translation reserves \$'000	Other reserves \$'000	Accumulated losses \$'000	Non-controlling interest \$'000	Total equity \$'000
Balance at 1 July 2020	1	11,324	-	-	(16,083)	-	(4,758)
Profit after income tax benefit for the period	-	-	-	-	2,606	-	2,606
Other comprehensive loss for the period, net of tax	-	-	(43)	(1)	-	-	(44)
Total comprehensive income for the period	-	-	(43)	(1)	2,606	-	2,562
<i>Transactions with owners in their capacity as owners:</i>							
Contributions of equity, net of transaction costs	113,000	-	-	-	-	-	113,000
Share-based payments	-	-	-	525	-	-	525
Non-controlling interests	-	-	-	-	-	85	85
Shares to be issued	4,559	-	-	-	-	-	4,559
Balance at 31 December 2020	<u>117,560</u>	<u>11,324</u>	<u>(43)</u>	<u>524</u>	<u>(13,477)</u>	<u>85</u>	<u>115,973</u>

Consolidated	Contributed equity \$'000	Capital contribution \$'000	Translation reserves \$'000	Other reserves \$'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
Loss after income tax benefit for the period	-	-	-	-	(8,741)	-	(8,741)
Other comprehensive loss for the period, net of tax	-	-	(422)	-	-	(18)	(440)
Total comprehensive loss for the period	-	-	(422)	-	(8,741)	(18)	(9,181)
<i>Transactions with owners in their capacity as owners:</i>							
Share-based payments	-	-	-	437	-	-	437
Release of deferred tax recognised in equity	(40)	-	-	-	-	-	(40)
Balance at 31 December 2021	<u>207,122</u>	<u>11,324</u>	<u>(413)</u>	<u>1,354</u>	<u>(25,607)</u>	<u>41</u>	<u>193,821</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 period ended 31 December 2021

	Consolidated	
	31 Dec 2021	31 Dec 2020
	\$'000	\$'000
Cash flows used in operating activities		
Receipts from customers (inclusive of GST)	642	-
Payments to suppliers and employees (inclusive of GST)	(21,426)	(1,871)
Interest received	42	59
Other income	242	83
Interest and other finance costs paid	-	(1)
Transaction costs relating to acquisition of subsidiary	-	(536)
	<hr/>	<hr/>
Net cash used in operating activities	(20,500)	(2,266)
Cash flows used in investing activities		
Payments for property, plant and equipment	(16,674)	(1,802)
Payments for exploration and evaluation	(3,885)	(1,968)
Payments for the purchase of biological assets	(345)	(196)
Net cash acquired with subsidiaries	-	114
Proceeds from government grants received	4,962	-
	<hr/>	<hr/>
Net cash used in investing activities	(15,942)	(3,852)
	<hr/>	<hr/>
Net cash from financing activities	-	-
	<hr/>	<hr/>
Net decrease in cash and cash equivalents	(36,442)	(6,118)
Cash and cash equivalents at the beginning of the financial period	93,324	18,544
	<hr/>	<hr/>
Cash and cash equivalents at the end of the financial period	<u>56,882</u>	<u>12,426</u>

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

Note 1. Significant accounting policies

Basis of preparation

This condensed consolidated interim financial report for the reporting period ended 31 December 2021 has been prepared in accordance with Australian Accounting Standard AASB 134 'Interim Financial Reporting' and the *Corporations Act 2001*, as appropriate for for-profit oriented entities. Compliance with AASB 134 ensures compliance with International Financial Reporting Standard IAS 34 'Interim Financial Reporting'.

This condensed consolidated interim financial report does not include all the notes of the type normally included in annual financial statements. Accordingly, these financial statements are to be read in conjunction with the annual report for the year ended 30 June 2021 and any public announcements made by the company during the interim reporting period in accordance with the continuous disclosure requirements of the *Corporations Act 2001*.

The principal accounting policies adopted are consistent with those of the previous financial year and corresponding interim reporting period, except for the policies stated below.

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.

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.

New or amended Accounting Standards and Interpretations adopted

The Group 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 Group.

Note 1. Significant accounting policies (continued)

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 \$36,442,000 for the period ended 31 December 2021. At 31 December 2021, the Group had cash on hand of \$56,882,000 (31 December 2020: \$12,426,000). The Group has net working capital as at 31 December 2021 of \$66,651,000 and outstanding commitments of \$14,254,000 relating to construction of the Korean metals plant, Dubbo FEED, Dubbo land acquisitions, and exploration obligations all due within 12 months (Refer Note 15).

Based on the Group's cash flow forecast, the Group will require additional funding in the next 12 months from the date of the half-year financial report 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, that the entity may be unable to realise its assets and discharge its liabilities in the normal course of business

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 being able to raise additional funding which may include:

- Completing the US\$250m framework agreement during the first half of 2022 with the South Korean consortium for a 20% interest in the Dubbo Project as announced on 21 July 2021;
- 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;
- Raising debt financing for the Dubbo project. ASM has appointed 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; 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.

The Directors are satisfied that at the date of signing the financial report, there are reasonable grounds to believe that the Group will be successful in these endeavours and that the Group will be able to raise sufficient capital.

The financial report does not include any adjustments relating to the amounts or classifications of recorded assets and liabilities that might be necessary if the Group does not continue as a going concern.

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 half-year financial statements of the current period.

Note 2. 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 period ended 31 December 2021, 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.

Australian Strategic Materials Ltd
Notes to the consolidated financial statements
31 December 2021

Note 2. Operating segments (continued)

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

	Corporate \$'000	Dubbo Project \$'000	Korea \$'000	Total \$'000
Consolidated - 31 Dec 2021				
Revenue				
Sales to external customers	642	-	-	642
Total revenue	642	-	-	642
<i>Material items include:</i>				
Segment Loss	(6,646)	(331)	(3,731)	(10,708)
Assets				
Segment assets	80,210	104,361	43,536	228,107
Total assets				228,107
Liabilities				
Segment liabilities	23,931	1,380	8,975	34,286
Total liabilities				34,286
Consolidated - 31 Dec 2020				
Revenue				
Sales to external customers	496	-	-	496
Total revenue	496	-	-	496
<i>Material items include:</i>				
Segment Profit/(Loss)	2,380	-	(191)	2,189
Consolidated - 30 June 2021				
Assets				
Segment assets	124,420	96,768	7,447	228,635
Total assets				228,635
Liabilities				
Segment liabilities	25,080	563	387	26,030
Total liabilities				26,030

Consolidated
31 Dec 2021 **31 Dec 2020**
\$'000 **\$'000**

Note 3. Revenue

Pastoral company revenue	642	496
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Note 4. Other income

Net gain on loan forgiveness	-	4,731
Interest income	26	54
Property and Rental income	65	82
Sundry	29	201
Other income	120	5,068

Note 5. Operating expenses

Operating expenses include administration and general expenditure not capitalised with respect of the construction and hot commissioning of the Korea Metallization Plant.

Note 6. Inventories

Raw materials	11,194	-
Consumables	567	243
	11,761	243

At 31 December 2021, the Group has recognised raw materials inventory to be used in the hot commissioning and production from the Korean Metallization Plant.

There were no write downs to net realisable value for the period ended 31 December 2021 (30 June 2021: nil).

Note 7. Property, plant and equipment

Land and buildings - at cost	30,848	28,895
Less: Accumulated depreciation	(85)	(49)
	30,763	28,846
Plant and equipment - at cost [i]	4,991	2,922
Less: Accumulated depreciation	(417)	(346)
	4,574	2,576
Capital work-in-progress	15,145	29
	50,482	31,451

[i] At 31 December 2021, the Group recognised a provision for decommissioning of \$2,699,000 (30 June 2020: nil) related to the obligations to restore the site of the Korean Metallization Plant to its original state. In accordance with the Group's accounting policy, the cost to decommission is added to plant and subsequently amortised over the plants useful life following commissioning. Refer to Note 11 for further details.

Australian Strategic Materials Ltd
Notes to the consolidated financial statements
31 December 2021

	Consolidated	
	31 Dec 2021	30 June 2021
	\$'000	\$'000
Note 8. Exploration and evaluation		
Opening balance	96,742	90,665
Expenditure capitalised during the period	4,733	6,077
Closing balance	<u>101,475</u>	<u>96,742</u>
Note 9. Intangibles		
Intellectual property - at cost	5,376	5,380
Less: Accumulated amortisation	(1,247)	(712)
	<u>4,129</u>	<u>4,668</u>
Note 10. Trade and other payables		
Trade payables	213	221
Accruals	3,228	973
Other payables	312	8
	<u>3,753</u>	<u>1,202</u>
Note 11. Provisions		
Long service leave	34	27
Provision for decommissioning [i]	2,669	-
	<u>2,703</u>	<u>27</u>
<p>[i] 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.</p>		
Note 12. Unearned revenue		
Unearned revenue	<u>4,869</u>	<u>-</u>

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.

	Consolidated	
	31 Dec 2021	30 June 2021
	\$'000	\$'000
Foreign currency reserve	(413)	9
Share-based payments reserve	1,354	917
Other reserves	11,324	11,324
	12,265	12,250
	12,265	12,250

Note 13. Reserves

Foreign currency reserve
Share-based payments reserve
Other reserves

Note 14. Dividends

There were no dividends paid, recommended or declared during the current or previous financial period.

Note 15. Commitments

Mineral tenement leases

In order to maintain current rights of tenure to exploration and mining tenements, the Group will be required to outlay amounts of approximately \$118,000 within the next twelve months (30 June 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

Dubbo

The Group has capital commitments estimated at \$3,055,000 for the acquisition of parcels of land surrounding the Dubbo Project (30 June 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 ('ASMH') to acquire their property as provided for under an agreement as development consent conditions are met for the Dubbo Project.

In addition, \$1,690,000 has been committed regarding activities for the Dubbo Project (30 June 2021: \$2,610,000)

Korea

The Group has capital commitments estimated at \$9,391,000 (30 June 2021: nil) relating to the purchase of equipment for the construction of the Korea Metals Plant.

Note 16. Contingent liabilities

The Group has contingent liabilities estimated at up to \$5,637,000 for the potential acquisition of parcels of land surrounding the Dubbo Project (30 June 2021: \$5,375,000). The landholders have the right to require ASMH to acquire their property when the development consent conditions for the Dubbo Project have been met. At 31 December 2021, the conditions had not been met and accordingly have been classified as a contingent liability.

Note 17. Related party transactions

Parent entity

Australian Strategic Materials Ltd is the parent entity.

Transactions with related parties

During the period ended 31 December 2021, there were transactions of \$633,000 with Directors, including salary, Director's fees, consultancy fees and superannuation. In addition, transactions with Director related entities included \$17,000 for IT support, \$15,000 for aviation services and \$249,000 to Alkane Resources Limited for personnel and office services.

Receivable from and payable to related parties

There were no trade receivables from or trade payables to related parties at the current and previous reporting date. There were amounts accrued of \$114,000 related to IT support.

Note 17. Related party transactions (continued)

Loans to/from related parties

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

Note 18. Events after the reporting period

On 6 January 2022, ASM executed an agreement to purchase a parcel of land surrounding the Dubbo Project for \$1,147,500. The parcel of land purchased is included in the value of capital commitments disclosed at Note 15.

On 24 January 2022, the consortium of South Korean Investors, comprising Cerritos Holdings Co., Ltd, Kamur Partners LLC and ACE Equity Partners LLC, successfully completed due diligence on the Dubbo Project.

On 25 February 2022, ASM and Hyundai Engineering Corporation Co., Ltd., signed a Heads of Agreement to exclusively negotiate the FEED and the Engineering Procurement and Construction ('EPC') for the Dubbo Project.

No other matter or circumstance has arisen since 31 December 2021 that has significantly affected, or may significantly affect the Group's operations, the results of those operations, or the Group's state of affairs in future financial years.

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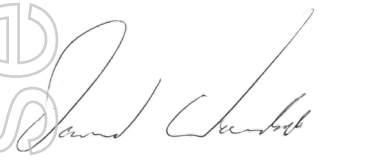
Australian Strategic Materials Ltd
Directors' declaration
31 December 2021

In the directors' opinion:

- the financial statements and notes set out on pages 6 to 16 are in accordance with the Corporations Act 2001 including:
 - (i) complying with Accounting Standards, the Corporations Regulations 2001 and other mandatory professional reporting requirements; and
 - (ii) giving a true and fair view of the consolidated entity's financial position as at 31 Dec 2021 and of its performance for the financial period ended on that date; and
- subject to the matters set out in note 1 of the financial report there are reasonable grounds to believe that the Group will be able to pay its debts as and when they become due and payable.

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

On behalf of the directors



D G Woodall
Director

11 March 2022



Independent auditor's review report to the members of Australian Strategic Materials Ltd

Report on the half-year financial report

Conclusion

We have reviewed the half-year financial report of Australian Strategic Materials Ltd (the Company) and the entities it controlled during the half-year (together the Group), which comprises the consolidated balance sheet as at 31 December 2021, the consolidated statement of changes in equity, consolidated statement of cash flows and consolidated statement of profit or loss and other comprehensive income for the half-year ended on that date, significant accounting policies and explanatory notes and the directors' declaration.

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the accompanying half-year financial report of Australian Strategic Materials Ltd does not comply with the *Corporations Act 2001* including:

1. giving a true and fair view of the Group's financial position as at 31 December 2021 and of its performance for the half-year ended on that date
2. complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

Basis for conclusion

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

We are independent of the Group in accordance with the auditor independence requirements of the *Corporations Act 2001* and the ethical requirements of the Accounting Professional & Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants (including Independence Standards)* (the Code) that are relevant to the audit of the annual financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

Material uncertainty relating to going concern

We draw attention to Note 1 in the half-year financial report, which indicates that the Group incurred a net loss of \$8,741,000, and net operating and investing cash outflows of \$36,442,000 during the half year ended 31 December 2021. As of that date, the Group had a net working capital position of \$66,651,000 and outstanding capital commitments of \$14,254,000 due within the next 12 months from the date of the half-year financial report. The Group will require additional funding in the next 12 months from the date of the half-year financial report to enable the Group to continue to realise its strategic business activities and meet all associated corporate, exploration, construction, and development commitments within the period. These conditions, along with other matters set forth in Note 1, indicate that a material uncertainty exists that may cast significant doubt on the Group's ability to continue as a going concern. Our conclusion is not modified in respect of this matter.

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Responsibilities of the directors for the half-year financial report

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

Auditor's responsibilities for the review of the half-year financial report

Our responsibility is to express a conclusion on the half-year financial report based on our review. ASRE 2410 requires us to conclude whether we have become aware of any matter that makes us believe that the half-year financial report is not in accordance with the *Corporations Act 2001* including giving a true and fair view of the Group's financial position as at 31 December 2021 and of its performance for the half-year ended on that date, and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

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

Price Waterhouse Coopers

PricewaterhouseCoopers

Helen Bathurst

Helen Bathurst
Partner

Perth
11 March 2022