



Australian Strategic Materials Ltd

ABN 90 168 368 401

Annual Report - 30 June 2020



Australian Strategic Materials Ltd
Corporate directory
30 June 2020

Directors	I J Gandel D G Woodall N P Earner D I Chalmers G M Smith
Joint Company secretaries	Dennis Wilkins James Carter
Registered office & principal place of business	Ground Floor, 89 Burswood Road, Burswood WA 6100 Telephone: 61 8 9227 5677 Facsimile: 61 8 9227 8178
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 2020

The directors present their report, together with the financial statements, on the Consolidated Entity (referred to hereafter as the 'Consolidated Entity') 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 2020. Australian Strategic Materials Ltd changed its name from Australian Zirconia Holdings Pty Ltd on 25 March 2020.

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 - appointed 12 February 2020
N P Earner
D I Chalmers
G M Smith
A D Lethlean - resigned 28 July 2020

Principal activities

The principal activities of the Consolidated Entity during the course of the year were mineral evaluation activities for the Dubbo Project, a large in-ground resource of zirconium, hafnium, niobium and rare earth elements. The Consolidated Entity's subsidiaries, Australian Strategic Materials (Holdings) Limited (ASMH) continues to focus on mineral evaluation activities for the Dubbo Project and Toongi Pastoral Company Pty Ltd (TPC) continues to focus on managing the farm activities (breeding and grazing of sheep and cattle) and biodiversity offsets as part of the Dubbo Project activities. The Dubbo Project is development ready, subject to financing, with the mineral deposit and surrounding land acquired and all major State and Federal approvals in place.

Dividends

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

Review of operations

The loss for the Consolidated Entity after providing for income tax amounted to \$4,264,802 (30 June 2019: \$3,247,582).

The Dubbo Project (DP) remains construction ready, with the mineral deposit and surrounding land wholly owned, all material State and Federal approvals in place, an established flowsheet and a solid business case.

Alkane Resources Ltd's (the Ultimate Parent Company) shareholders approved the Demerger of the Consolidated Entity (ASM), with relevant resolutions tabled at the Extraordinary General Meeting (EGM) passed on 16th July 2020.

ASM continues the execution of its integrated business plan for the Dubbo Project, which aims to deliver value adding clean metals, and the optimisation of the June 2018 FEED Study, with flotation testwork currently being advanced with a view to inserting a flotation circuit to the Dubbo Project design, targeting lower overall capital and operating costs.

During the year ASM's investment in Rare Metals Resources Technology Corporation (RMR) completed the construction and commissioning of the commercial pilot plant in Daejeon, South Korea. The plant, designed to produce low emission, high purity metals, was completed on time and budget. Initially the RMR joint venture between ASM and Zirconium Technology Corporation (Ziron Tech) (a South Korean company) is focused on metal production of zirconium, titanium, and rare earths for permanent magnet alloys.

The continued focus on product development has led to the execution of a binding agreement with Ziron Tech to fund the final stage of research and feasibility into a clean process for converting metal oxide, including Dubbo Project metals, to metals of a highly marketable purity. Several conditions precedent that remained outstanding at 30 June 2019 have since been satisfied, and the Joint Venture with RMR was established. The new technology should allow the company to bypass traditional supply chains and sell products direct to the consumer. The commercial scale pilot plant was constructed and will commence production in the third quarter of 2020.

Review of operations (continued)

Ziron Tech has received funding for the development of a low emission, high purity metal refining technology that can be applied to zirconium, titanium, and rare earths for permanent magnet alloys. This development is occurring in joint venture with ASM who has the exclusive rights to the commercialisation of the technology worldwide. The technology is intended to replace conventional energy-intensive metallisation processes with a more environmentally friendly, sustainable and cost-effective alternative.

Chinese authorities continue their war on pollution, with smaller operations being forced to upgrade facilities or close down. This extends to the rare earths industry in China, which has been consolidated in recent years, and to ionic clay mining and processing in southern provinces which has been largely eliminated. However, the unsustainable discharge of rare earths residues from China's Baotou operations in Inner Mongolia appears to be overlooked by authorities and western companies keen to portray an image of responsible and sustainable sourcing. China's zirconium chemicals industry faces similar issues, where radioactive waste streams and residues contain uranium and thorium extracted from zircon raw materials. On top of this is the chronic shortage of water in northern China, affecting both rare earths and zirconium production. Risks for supply disruption of rare earths and zirconium products continue to grow, with few alternatives outside China at this time.

Market prices for zirconium and rare earths remained flat or slightly lower at time of finalising the accounts, with some small companies reducing prices to reduce stocks. Zircon prices remained weak on the back of slow demand in China, while niobium and hafnium prices remained stable.

Significant changes in the state of affairs

In June 2019 the company executed a binding agreement with Ziron Technology Corporation (a South Korean Company) to fund the final stage of research and feasibility into a clean process for converting metal oxide, including Dubbo Project metals, to metals of a highly marketable purity. Several conditions precedent that remained outstanding at 30 June 2019 were satisfied in July 2019, and an investment of US\$1.2m has been made for the final stage of research which will include construction of a commercial scale equipment unit for testing.

In early 2020 with the outbreak of Coronavirus Disease 2019 ("COVID-19" or "the coronavirus") unprecedented measures put in place by the Australian Government, as well as governments across the globe, to contain the coronavirus have had a significant impact on the economy. Management continues to consider the potential implications of coronavirus, which may include delaying the construction and commissioning of the pilot modification plant for the Dubbo Project, and other Dubbo Project optimisation work in progress focused on further improving the project economics. 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 the coronavirus.

There were no other significant changes in the state of affairs of the Consolidated Entity during the financial year.

Matters subsequent to the end of the financial year

On 16 July 2020, Alkane Resources Ltd's shareholders voted for the demerger of its critical materials business and assets (the ASM Business) from the remainder of Alkane Resource Ltd's business at the Extraordinary General Meeting.

The Consolidated Entity was demerged with its cash reserves and no bank debt. All interests in the Dubbo Project and associated assets (including land and water rights), together with the Company's investment in South Korean metals technology company Rare Metals Resources Technology Corporation, will be owned by the Consolidated Entity following the Demerger. The Consolidated Entity will have a focussed board and management team, a strategy to pursue the advancement of the "Clean Metal" metallisation technology, potential value-enhancing opportunities in relation to the Dubbo Project and will continue to be involved in off-take and financing discussions, including those already underway in relation to the Dubbo Project.

Australian Strategic Materials Ltd was admitted to the Official List of Australian Securities Exchange on 29 July 2020.

On 17 July 2020, the Ultimate Parent Company, Alkane Resources Ltd, and Australian Strategic Materials Ltd entered into a restructure deed as part of the demerger to capitalise \$113,000,000 and forgive \$4,730,991 of the related party loans to Australian Strategic Materials Ltd.

No other matter or circumstance has arisen since 30 June 2020 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.

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Likely developments and expected results of operations

The Demerger of the Consolidated Entity was approved by shareholders on 16 July 2020. The Consolidated Entity continues the execution of its integrated business plan for the Dubbo Project, which aims to deliver value adding clean metals, and the optimisation of the June 2018 FEED Study, with flotation testwork currently being advanced with a view to inserting a flotation circuit to the Dubbo Project design, targeting lower overall capital and operating costs.

The Consolidated Entity intends to continue evaluation activities in relation to the Dubbo Project in line with details provided in the Review of Operations.

Environmental regulation

The Consolidated Entity is subject to significant environmental regulation in respect of its exploration and evaluation activities.

The Consolidated Entity 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. There were no significant environmental incidents reported at any of the Consolidated Entity's operations.

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 the CEO 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 also the Non-Executive Chairman of Octagonal Resources Ltd (appointed 10 November 2010) (this company sought delisting from the ASX in February 2016 and converted to Pty Ltd status in April 2016).

Mr Gandel is Non-Executive Chairman of Alkane Resources Ltd.

David Graham Woodall – Managing Director

Appointed Managing Director 12 February 2020

Mr Woodall is a mining engineer with over 30 years' experience in senior and corporate and executive roles in operations, project development and evaluations in the mineral resources industry including gold, copper, iron ore, and nickel.

He has held senior positions in Australia, Fiji, Central Asia, Indonesia, China, PNG and North America.

Prior to joining ASM, he was the CEO of an ASX listed Canadian-focussed base metals development company. Prior to that, Mr Woodall ran his own consultancy company, was the Executive General Manager, International Operations for Newcrest Mining and was the Director of Operations for Fortescue Metals Group.

Mr Woodall is a member of the Australian Institute on Mining and Metallurgy (AusIMM) and a member of the Australian Institute of Company Directors (AICD).

Information on directors (continued)

Nicolas Paul Earner - Non-Executive Director
BEng (hons)

Appointed Non-Executive Director 1 September 2017

Mr Earner, Alkane Resources Ltd's current Managing Director, 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 drives the engineering and metallurgical aspects of the Dubbo Project, overseeing optimisation of plant design and product and marketing development.

Prior to his appointment as Alkane Resources Ltd's Chief Operations Officer in August 2013, he spent four years at Straits Resources Ltd including two years as Executive General Manager – Operations, supervising up to 1,000 employees in open cut and underground gold mines and an underground copper mine. During the eleven years before that he had various roles at Rio Tinto Coal Australia's Mount Thorley Warkworth coal mine and BHP/WMC Olympic Dam copper-uranium-gold operations. Mr Earner's eight years at Olympic Dam included roles managing the Concentrator and Hydromet functions which included substantial milling, leaching and solvent extraction circuits. His other positions included Production Superintendent – Smelting, and Senior Engineer – Process Control, Instrumentation and Communications.

Mr Earner is the Managing Director of Alkane Resources Ltd and a non-executive director of Genesis Minerals Ltd (Genesis).

David Ian Chalmers - Non-Executive Director
MSc, FAusIMM, FAIG, FIMM, FSEG, MSGA, MGSA, FAICD

Appointed Non-Executive Director 18 March 2014

Mr Chalmers is a geologist and graduate of the Western Australia Institute of Technology (Curtin University) and has a Master of Science degree from the University of Leicester in the United Kingdom. He has worked in the mining and exploration industry for over 50 years and has gained experience in all facets of exploration and mining through feasibility and development to the production phase. Mr Chalmers was Technical Director until his appointment as Managing Director of Alkane Resources Ltd in 2006, overseeing the group's minerals exploration efforts across Australia (New South Wales and Western Australia), Indonesia and New Zealand and the development and operations of the Peak Hill Gold Mine (NSW). During his time as Chief Executive he steered Alkane Resources Ltd through discovery, feasibility, construction and development of the now fully operational Tomingley Gold Operations; the discovery and ultimate sale of the McPhillamys gold deposit: the recent discovery of the gold deposits immediately south of Tomingley and the porphyry gold-copper discovery at Boda. Mr Chalmers also manages the process development and global marketing effort for the Dubbo Project, advancing it to the threshold of development.

Mr Chalmers is the Technical 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 Chair and President of Robert Bosch Australia, Mr Smith has led the restructuring and transformation of the local Bosch subsidiary.

Mr Smith is a non-executive director of Alkane Resources Ltd.

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Information on directors (continued)

Anthony Dean Lethlean - Non-Executive Director
BAppSc (Geology)

Appointed Non-Executive Director 15 October 2003 resigned 28 July 2020.

Mr Lethlean is a geologist with over 10 years mining experience including 4 years underground on the Golden Mile in Kalgoorlie. In later years, he has worked as a resource analyst with various stockbrokers and investment banks including CIBC World Markets. He was a founding director of Helmsec Global Capital Limited which seeded, listed and funded a number of companies in a range of commodities. He retired from the group in 2014. He is also a director of corporate advisory Rawson Lewis and a non-executive director of Alliance Resources Ltd (appointed 15 October 2003).

Anthony Lethlean was director of ASM for the entire period and resigned upon the Demerger being implemented.

Mr Anthony is a non-executive director of Alkane Resources Ltd.

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.

James Carter - Joint Company Secretary

Appointed joint Company Secretary 20 May 2020

Mr Carter is a CPA and Chartered Company Secretary with over 20 years international experience in the resources industry. He has held senior finance positions across listed resources companies since 2001.

Meetings of directors

The number of meetings of the Company's Board of Directors ('the Board') held during the year ended 30 June 2020, and the number of meetings attended by each director were:

	Full Board	
	Attended	Held
I J Gandel	4	4
D G Woodall	4	4
D I Chalmers	4	4
G M Smith	4	4
N P Earner	4	4
A D Lethlean	4	4

Held: represents the number of meetings held during the time the director held office.

ASM was admitted to the Official List of Australian Securities Exchange on 29 July 2020. During the entire financial year ASM was a subsidiary of Alkane Resources Ltd and as such there were no board committee meetings held during the period since ASM was not admitted to the ASX until after the year end on 29 July 2020.

Australian Strategic Materials Ltd
Directors' report
30 June 2020

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.

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the entity, directly or indirectly, including all directors.

Key Management Personnel disclosed in this report

Non-Executive and Executive Directors

I J Gandel
D G Woodall
N P Earner
D I Chalmers
G M Smith
A D Lethlean - resigned upon the Demerger on 28 July 2020

Other Key Management Personnel

S Messiter Chief Operating Officer
A MacDonald General Manager, Marketing

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

Remuneration governance

The Company has established a Nomination and 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 Nomination and Remuneration Committee is a committee of the Board and at the date of this report the members were independent non-executive directors and included I J Gandel, N P Earner and G M Smith.

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.

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 ensures that executive reward satisfies the following key criteria for good reward governance practices:

- competitiveness and reasonableness
- acceptability to shareholders
- performance linkage / alignment of executive compensation
- transparency

The Nomination and 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.

Remuneration report (continued)

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 Nomination and Remuneration Committee. The Nomination and 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 to 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 \$500,000, 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.

ASM intends to seek external advice and benchmarking data and conduct a formal review of director remuneration in or around quarter four of 2020.

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 superannuation and long service leave

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

Fixed remuneration, consisting of base salary, superannuation and non-monetary benefits, are reviewed annually by the Nomination and Remuneration Committee based on individual and business unit performance, the overall performance of the Consolidated Entity and comparable market remunerations.

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.

The long-term incentives ('LTI') include long service leave and share-based payments. Shares are awarded to executives over a period of three years based on long-term incentive measures. These include increase in shareholders value relative to the entire market and the increase compared to the Consolidated Entity's direct competitors. The Nomination and Remuneration Committee reviewed the long-term equity-linked performance incentives specifically for executives during the year ended 30 June 2020.

Use of remuneration consultants

Remuneration consultants were not engaged during the financial period, however it is intended to engage subsequent to the demerger and listing of the ASM business.

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Remuneration report (continued)

Details of remuneration

Amounts of remuneration

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

	Cash salary and fees	Superannuation	Annual and long service provision	Total
2020	\$	\$	\$	\$
<i>Executive Directors:</i>				
D G Woodall	121,180	11,512	10,720	143,412
<i>Other Key Management Personnel:</i>				
S Messiter	91,324	8,676	-	100,000
A MacDonald	47,469	4,389	72,938	124,796
	259,973	24,577	83,658	368,208

The non-executive directors were not entitled to any payment during the financial period. Fees will be payable following the demerger of ASM in financial year ended 30 June 2021.

D G Woodall has been granted 3,000,000 performance rights on 17 July 2020. The performance rights will vest as ordinary shares if milestones are met and will vest at the end of the three year period in two tranches:

- (1) 1,800,000 Tranche 1 performance rights in relation to Total Shareholder Return; and
- (2) 1,200,000 Tranche 2 performance rights subject to Milestone Targets

Service agreements

Remuneration and other terms of employment for key management personnel are formalised in service agreements. Details of these agreements are as follows:

Name: D G Woodall
Title: Managing Director
Agreement commenced: 10 February 2020
Term of agreement: Ongoing
Details: Total fixed remuneration: \$375,000
Notice period: 3 months

Name: S Messiter
Title: Chief Operating Officer
Agreement commenced: 1 November 2019
Term of agreement: Ongoing Casual
Details: Fixed rate \$2,000 per day

Name: A MacDonald
Title: General Manager - Marketing
Agreement commenced: 1 February 2017
Term of agreement: Ongoing
Details: Total fixed remuneration: \$384,900
Notice period: 3 months
Contract originally with the Ultimate Parent Company, Alkane Resources Ltd. On 1 May 2020, employment was transferred to the ASM group as part of the demerger.

Key management personnel have no entitlement to termination payments in the event of removal for misconduct.

This concludes the remuneration report, which has been audited.

Indemnity and insurance of officers

Alkane Resources Ltd (the Ultimate 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.

The liability insured is the indemnification of the Consolidated Entity against any legal liability to third parties arising out of any Directors or officers duties in their capacity as a Director or Officer other than indemnification not permitted by law.

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

The Ultimate Parent Company has not otherwise, during or since the financial year, indemnified or agreed to indemnify an Officer of the Consolidated Entity or of any related body corporate, against a liability incurred as such by an Officer.

During the year the Ultimate Parent Company has paid premiums in respect of Directors' and Executive Officers' Insurance. The contracts contain prohibitions on disclosure of the amount of the premiums and the nature of the liabilities under the policies.

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

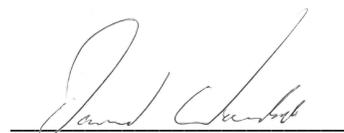
There were no non-audit services provided during the financial year by the auditor.

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



D G Woodall
Director

24 August 2020



Auditor's Independence Declaration

As lead auditor for the audit of Australian Strategic Materials Ltd for the year ended 30 June 2020, I declare that to the best of my knowledge and belief, there have been:

- (a) no contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the 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 Ltd and the entities it controlled during the period.

Helen Bathurst

Helen Bathurst
Partner
PricewaterhouseCoopers

Perth
24 August 2020

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

89 Burswood Road, Burswood, 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 24 August 2020. 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 2020

	Note	Consolidated	
		2020 \$	2019 \$
Revenue			
Other income	3	1,072,532	1,763,484
Expenses from continuing operations			
Professional fees and consulting services		(624,190)	224,481
Dubbo consumables expenses		-	(162,356)
Audit fees		(41,077)	(11,003)
General and administration expenses		(478,164)	57,137
Pastoral company expenses		(847,755)	(1,184,711)
Finance charges		(3,584,923)	(3,417,610)
Exploration provided for or written off		-	(444,135)
Share of loss of Rare Metals Resources Technology Corporation (RMR)		(9,609)	-
Loss before income tax benefit/(expense)		(4,513,186)	(3,174,713)
Income tax benefit/(expense)	4	248,384	(72,869)
Loss after income tax benefit/(expense) for the year attributable to the owners of Australian Strategic Materials Ltd	16	(4,264,802)	(3,247,582)
Other comprehensive income for the year, net of tax		-	-
Total comprehensive income for the year attributable to the owners of Australian Strategic Materials Ltd		<u>(4,264,802)</u>	<u>(3,247,582)</u>
		\$	\$
Basic earnings per share	31	(852,960)	(649,516)
Diluted earnings per share	31	(852,960)	(649,516)

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 2020

	Note	Consolidated 2020 \$	2019 \$
Assets			
Current assets			
Cash and cash equivalents	5	18,543,908	26,968,287
Receivables	6	106,882	296,896
Consumables		3,663	56,490
Biological assets	7	402,792	81,127
Total current assets		<u>19,057,245</u>	<u>27,402,800</u>
Non-current assets			
Property, plant and equipment	8	27,567,288	26,958,677
Exploration and evaluation	9	90,665,315	88,783,436
Investments accounted for using the equity method	10	1,720,744	-
Receivables	6	126,533	-
Biological assets	7	380,365	401,928
Other financial assets		20,000	20,000
Total non-current assets		<u>120,480,245</u>	<u>116,164,041</u>
Total assets		<u>139,537,490</u>	<u>143,566,841</u>
Liabilities			
Current liabilities			
Trade and other payables	11	344,034	296,801
Loans from related party	12	117,730,988	11,640,878
Provisions	13	144,807	10,860
Total current liabilities		<u>118,219,829</u>	<u>11,948,539</u>
Non-current liabilities			
Loans from related party	12	-	77,681,310
Deferred tax	4	26,043,454	25,874,708
Provisions	13	32,707	6,660
Total non-current liabilities		<u>26,076,161</u>	<u>103,562,678</u>
Total liabilities		<u>144,295,990</u>	<u>115,511,217</u>
Net (liabilities)/assets		<u>(4,758,500)</u>	<u>28,055,624</u>
Equity			
Issued capital	14	1	1
Reserves	15	11,323,987	39,873,309
Accumulated losses	16	(16,082,488)	(11,817,686)
Total (deficiency)/equity		<u>(4,758,500)</u>	<u>28,055,624</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 2020

Consolidated	Contributed equity \$	Capital Contribution \$	Accumulated losses \$	Total equity \$
Balance at 1 July 2018	1	39,873,309	(8,570,104)	31,303,206
Loss after income tax expense for the year	-	-	(3,247,582)	(3,247,582)
Other comprehensive income for the year, net of tax	-	-	-	-
Total comprehensive income for the year	-	-	(3,247,582)	(3,247,582)
Balance at 30 June 2019	<u>1</u>	<u>39,873,309</u>	<u>(11,817,686)</u>	<u>28,055,624</u>

Consolidated	Contributed equity \$	Capital contribution \$	Accumulated losses \$	Total deficiency in equity \$
Balance at 1 July 2019	1	39,873,309	(11,817,686)	28,055,624
Loss after income tax benefit for the year	-	-	(4,264,802)	(4,264,802)
Other comprehensive income for the year, net of tax	-	-	-	-
Total comprehensive income for the year	-	-	(4,264,802)	(4,264,802)
Adjustment for reclassification	Note 15	(28,549,322)	-	(28,549,322)
Balance at 30 June 2020	<u>1</u>	<u>11,323,987</u>	<u>(16,082,488)</u>	<u>(4,758,500)</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 2020

	Note	Consolidated	
		2020	2019
		\$	\$
Cash flows from operating activities			
Receipt from customers (inclusive of goods and services tax)		-	96,091
Payments to suppliers (inclusive of goods and services)		<u>(1,293,627)</u>	<u>(1,192,255)</u>
		(1,293,627)	(1,096,164)
Interest received		338,260	643,573
Other income		734,080	307,452
Finance costs paid		<u>(657)</u>	<u>(20,141)</u>
Net cash used in operating activities	26	<u>(221,944)</u>	<u>(165,280)</u>
Cash flows from investing activities			
Payments for investments		(1,730,353)	-
Payments for property, plant and equipment		(223,078)	(67,381)
Payments for exploration and evaluation		(2,474,499)	(6,387,480)
Payments for biological assets		(456,963)	(195,043)
Proceeds from sale of biological assets		<u>117,308</u>	<u>438,750</u>
Net cash used in investing activities		<u>(4,767,585)</u>	<u>(6,211,154)</u>
Cash flows from financing activities			
(Payments for)/Proceeds from borrowings from related party		<u>(3,434,850)</u>	<u>7,027,374</u>
Net cash (used in)/from financing activities		<u>(3,434,850)</u>	<u>7,027,374</u>
Net (decrease)/ increase in cash and cash equivalents		(8,424,379)	650,940
Cash and cash equivalents at the beginning of the financial year		<u>26,968,287</u>	<u>26,317,347</u>
Cash and cash equivalents at the end of the financial year		<u><u>18,543,908</u></u>	<u><u>26,968,287</u></u>

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 2020

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Australian Strategic Materials Ltd
Notes to the consolidated financial statements
30 June 2020

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').

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, biological assets, certain classes of property, plant and equipment and derivative financial instruments.

Going concern

The Consolidated Entity had net liabilities of \$4,758,500 as at 30 June 2020 (2019: net assets \$28,055,624), and a working capital deficit of \$99,162,584 as at 30 June 2020 (2019 surplus: \$15,454,261). The net assets includes the balance of loans owing to Alkane Resources Ltd ("the Ultimate Parent Company") of \$117,730,988 (2019: \$89,322,188). The loans are AUD denominated and are payable on demand with no fixed repayment date. The repayment term of the previous agreement was that the loan was payable on 22 March 2027 with the loan terms being changed to repayment on demand on 30 June 2020. Notwithstanding, the directors consider that the going concern basis of accounting is appropriate as the Ultimate Parent Company entered into a restructure deed on 17 July 2020 as part of the demerger, to capitalise \$113,000,000 and forgive \$4,730,991 of the loan balance. Refer note 25.

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 22.

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 2020 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.

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.

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.

Foreign currency translation

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

Note 1. Significant accounting policies (continued)

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.

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.

Interest

Interest revenue is recognised as interest accrues using the effective interest method. This is a method of calculating the amortised cost of a financial asset and allocating the interest income over the relevant period using the effective interest rate, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to the net carrying amount of the financial asset.

Other income

Other income is recognised when it is received or when the right to receive payment is established.

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.

Associates

Associates are entities over which the Consolidated Entity has significant influence but not control or joint control. Investments in associates are accounted for using the equity method. Under the equity method, the share of the profits or losses of the associate is recognised in profit or loss and the share of the movements in equity is recognised in other comprehensive income. Investments in associates are carried in the balance sheet at cost plus post-acquisition changes in the Consolidated Entity's share of net assets of the associate. Goodwill relating to the associate is included in the carrying amount of the investment and is neither amortised nor individually tested for impairment. Dividends received or receivable from associates reduce the carrying amount of the investment.

When the Consolidated Entity's share of losses in an associate equals or exceeds its interest in the associate, including any unsecured long-term receivables, the Consolidated Entity does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate.

The Consolidated Entity discontinues the use of the equity method upon the loss of significant influence over the associate and recognises any retained investment at its fair value. Any difference between the associate's carrying amount, fair value of the retained investment and proceeds from disposal is recognised in profit or loss.

Note 1. Significant accounting policies (continued)

Joint ventures

A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the arrangement. Investments in joint ventures are accounted for using the equity method. Under the equity method, the share of the profits or losses of the joint venture is recognised in profit or loss and the share of the movements in equity is recognised in other comprehensive income. Investments in joint ventures are carried in the balance sheet at cost plus post-acquisition changes in the Consolidated Entity's share of net assets of the joint venture. Goodwill relating to the joint venture is included in the carrying amount of the investment and is neither amortised nor individually tested for impairment. Income earned from joint venture entities reduce the carrying amount of the investment.

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.

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.

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.

Note 1. Significant accounting policies (continued)

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

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

AASB 16 Leases

The group has adopted AASB 16 Leases from 1 July 2019. The standard replaces AASB 117 Leases and for lessees eliminates the classifications of operating leases and finance leases. Except for short-term leases and leases of low-value assets, right-of-use assets and corresponding lease liabilities are recognised in the statement of financial position. The right-of-use asset is depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis, while the lease liability is reduced by an allocation of each lease payment. In the earlier periods of the lease, the expense associated with the lease under AASB 16 will be higher when compared to lease expenses under AASB 117. For lessor accounting, the standard does not substantially change how a lessor accounts for leases.

The group has elected to use the simplified transition approach as allowed under AASB 16 as well as apply the following practical expedients permitted by the standard:

- reliance on previous assessments on whether leases are onerous;
- the accounting for operating leases with a remaining lease term less than 12 months as at 1 July 2019 as short-term leases;
- the use of hindsight in determining the lease term where the contract contains options to extend or terminate lease.

The group reviewed its contracts that were in place at 1 July 2019 and determined that there are no long term operating leases. As a result, there was no impact on the current or prior financial period upon adoption of AASB 16.

There are no other standards that are yet effective and that would be expected to have a material impact on the entity in its current or future reporting periods and on foreseeable future transactions.

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.

Impairment of capitalised exploration and evaluation expenditure

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.

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

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 Consolidated Entity and its Ultimate Parent Company, Alkane Resources Ltd, have implemented the tax consolidation legislation. The head entity, Alkane Resources Ltd, and the controlled entities in the tax consolidated group, account for their own current and deferred tax amounts. These tax amounts are measured as if each entity in the tax consolidated group continues to be a stand-alone taxpayer in its own right. Current tax liabilities (or assets) and deferred tax assets arising from unused tax losses and unused tax credits are derecognised in the Consolidated Entity's accounts and instead recognised in the head entity's accounts. Assets or liabilities arising under the funding agreement with the Ultimate Parent Company are recognised as amounts receivable or payable to that entity.

The entities have also entered into a tax funding agreement under which the wholly-owned entities fully compensate Alkane Resources Ltd for any current tax payable assumed and are compensated by Alkane Resources Ltd for any current tax receivable and deferred tax assets relating to unused tax losses or unused tax credits that are transferred to Alkane Resources Ltd under the tax consolidation legislation. The funding amounts are determined by reference to the amounts recognised in the wholly-owned entities' financial statements.

Note 3. Other income

	Consolidated	
	2020	2019
	\$	\$
Net foreign exchange gain	(2,503)	(2,818)
Interest income	403,918	320,183
Lease income	120,956	105,393
Pastoral company income	550,161	1,340,726
Other income	<u>1,072,532</u>	<u>1,763,484</u>

Interest income from financial assets at fair value through profit or loss is included in the net fair value gains/(losses) on these assets. Interest income on financial assets at amortised cost and financial assets at fair value through other comprehensive income calculated using the effective interest method is recognised in profit or loss as part of other income.

Australian Strategic Materials Ltd
Notes to the consolidated financial statements
30 June 2020

Note 4. Income tax

	Consolidated	
	2020	2019
	\$	\$
<i>Income tax (benefit)/expense</i>		
Current tax	(417,130)	(1,262,733)
Deferred tax - origination and reversal of temporary differences	168,746	1,335,602
	<u>(248,384)</u>	<u>72,869</u>
Deferred tax included in income tax (benefit)/expense comprises:		
Increase in deferred tax liabilities	168,746	1,335,602
<i>Numerical reconciliation of income tax (benefit)/expense and tax at the statutory rate</i>		
Loss before income tax (expense)/benefit	(4,513,186)	(3,174,713)
Tax at the statutory tax rate of 30%	(1,353,956)	(952,414)
Tax effect amounts which are not deductible/(taxable) in calculating taxable income:		
Non-deductible expenses	1,105,572	1,025,283
Income tax expense/(benefit)	<u>(248,384)</u>	<u>72,869</u>

	Consolidated	
	2020	2019
	\$	\$
<i>Deferred tax asset</i>		
Deferred tax asset comprises temporary differences attributable to:		
Accruals and provisions	66,810	7,417
Borrowing costs	36,000	-
Previously expensed blackhole costs	12,150	33,276
Property, plant and equipment	35,122	1,814
Offset against deferred tax liabilities	(150,082)	(42,507)
Deferred tax asset	<u>-</u>	<u>-</u>

Note 4. Income tax (continued)

	Consolidated	
	2020	2019
	\$	\$
<i>Deferred tax liability</i>		
Deferred tax liability comprises temporary differences attributable to:		
Prepayments	2,964	2,602
Exploration	26,190,572	25,914,613
Set-off of deferred tax asset	<u>(150,082)</u>	<u>(42,507)</u>
Deferred tax liability	<u>26,043,454</u>	<u>25,874,708</u>
Movements:		
Opening balance	25,874,708	24,539,106
Charged to profit or loss	<u>168,746</u>	<u>1,335,602</u>
Closing balance	<u>26,043,454</u>	<u>25,874,708</u>

Accounting policy for income tax

The income tax expense or benefit for the period is the tax payable on that period's taxable income based on the applicable income tax rate for each jurisdiction, adjusted by the changes in deferred tax assets and liabilities attributable to temporary differences, unused tax losses and the adjustment recognised for prior periods, where applicable.

Deferred tax assets and liabilities are recognised for temporary differences at the tax rates expected to be applied when the assets are recovered or liabilities are settled, based on those tax rates that are enacted or substantively enacted, except for:

- When the deferred income tax asset or liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and that, at the time of the transaction, affects neither the accounting nor taxable profits; or
- When the taxable temporary difference is associated with interests in subsidiaries, associates or joint ventures, and the timing of the reversal can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

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

The carrying amount of recognised and unrecognised deferred tax assets are reviewed at each reporting date. Deferred tax assets recognised are reduced to the extent that it is no longer probable that future taxable profits will be available for the carrying amount to be recovered. Previously unrecognised deferred tax assets are recognised to the extent that it is probable that there are future taxable profits available to recover the asset.

Deferred tax assets and liabilities are offset only where there is a legally enforceable right to offset current tax assets against current tax liabilities and deferred tax assets against deferred tax liabilities; and they relate to the same taxable authority on either the same taxable entity or different taxable entities which intend to settle simultaneously.

The Consolidated Entity and its Ultimate Parent Company, Alkane Resources Ltd, have implemented the tax consolidation legislation. The head entity, Alkane Resources Ltd, and the controlled entities in the tax consolidated group, account for their own current and deferred tax amounts. These tax amounts are measured as if each entity in the tax consolidated group continues to be a stand-alone taxpayer in its own right. Current tax liabilities (or assets) and deferred tax assets arising from unused tax losses and unused tax credits are derecognised in the Consolidated Entity's accounts and instead recognised in the head entity's accounts. Assets or liabilities arising under the funding agreement with the Ultimate Parent Company are recognised as amounts receivable or payable to that entity. The ASM group exited the tax sharing agreement as part of the demerger of the Consolidated Entity in July 2020.

Australian Strategic Materials Ltd
Notes to the consolidated financial statements
30 June 2020

Note 5. Cash and cash equivalents

	Consolidated	
	2020	2019
	\$	\$
<i>Current assets</i>		
Cash at bank	<u>18,543,908</u>	<u>26,968,287</u>

Accounting policy for 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.

Note 6. Receivables

	Consolidated	
	2020	2019
	\$	\$
<i>Current assets</i>		
Other receivables	97,003	288,223
Prepayments	<u>9,879</u>	<u>8,673</u>
	<u>106,882</u>	<u>296,896</u>
<i>Non-current assets</i>		
Receivable from Rare Metals Resources Technology Corporation (RMR)	<u>126,533</u>	-
	<u>233,415</u>	<u>296,896</u>

Accounting policy for trade and other receivables

Other receivables are amounts generally arise from transactions outside the usual operating activities of the group. Collateral is not normally obtained. The non-current other receivables are due and payable within three years from the end of the reporting period.

Due to the short-term nature of the current receivables, their carrying amount is considered to be the same as their fair value. For the majority of the non-current receivables, the fair values are also not significantly different to their carrying amounts.

Note 7. Biological assets

	Consolidated	
	2020	2019
	\$	\$
<i>Current assets</i>		
Biological assets	<u>402,792</u>	<u>81,127</u>
<i>Non-current assets</i>		
Biological assets	<u>380,365</u>	<u>401,928</u>
	<u>783,157</u>	<u>483,055</u>

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

Australian Strategic Materials Ltd
Notes to the consolidated financial statements
30 June 2020

Note 8. Property, plant and equipment

	Consolidated	
	2020	2019
	\$	\$
<i>Non-current assets</i>		
Land and buildings - at cost	27,060,018	26,456,134
Less: Accumulated depreciation	(26,307)	(7,739)
	<u>27,033,711</u>	<u>26,448,395</u>
Plant and equipment - at cost	534,273	527,943
Less: Accumulated depreciation	(198,618)	(137,224)
	<u>335,655</u>	<u>390,719</u>
Capital Work in Progress	<u>197,922</u>	<u>119,563</u>
	<u><u>27,567,288</u></u>	<u><u>26,958,677</u></u>

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 \$	Plant & Equipment \$	Work in Progress \$	Total \$
Balance at 1 July 2018	26,155,078	188,741	603,504	26,947,323
Additions	-	-	83,572	83,572
Transfers in/(out)	300,653	266,860	(567,513)	-
Depreciation expense	(7,336)	(64,882)	-	(72,218)
	<u>26,448,395</u>	<u>390,719</u>	<u>119,563</u>	<u>26,958,677</u>
Balance at 30 June 2019	26,448,395	390,719	119,563	26,958,677
Additions	-	-	688,574	688,574
Transfers between classes	603,885	6,330	(610,215)	-
Depreciation expense	(18,569)	(61,394)	-	(79,963)
	<u>27,033,711</u>	<u>335,655</u>	<u>197,922</u>	<u>27,567,288</u>

All property, plant and equipment is stated at historical cost less accumulated depreciation and impairment charges. Historical cost includes:

- expenditure that is directly attributable to the acquisition 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.

Australian Strategic Materials Ltd
Notes to the consolidated financial statements
30 June 2020

Note 8. Property, plant and equipment (continued)

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

Note 9. Exploration and evaluation

	Consolidated	
	2020	2019
	\$	\$
Opening balance	88,783,486	83,387,571
Expenditure capitalised during the year	1,881,829	5,840,000
Amounts provided for or written off	-	(444,135)
	<u>90,665,315</u>	<u>88,783,436</u>
Closing balance		

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.

Australian Strategic Materials Ltd
Notes to the consolidated financial statements
30 June 2020

Note 10. Investments accounted for using the equity method

	Consolidated	
	2020	2019
	\$	\$
<i>Non-current assets</i>		
Interest in Joint Venture	<u>1,720,744</u>	<u>-</u>
<i>Reconciliation</i>		
Reconciliation of the carrying amounts at the beginning and end of the current and previous financial year are set out below:		
Opening carrying amount	-	-
Additions	1,730,353	-
Share of loss of Joint Venture	<u>(9,609)</u>	<u>-</u>
Closing carrying amount	<u>1,720,744</u>	<u>-</u>

Through the shareholder agreement, Australian Strategic Materials (Holdings) Ltd is guaranteed 50% representation on the board of RMR and participates in all significant financial and operating decisions. The Consolidated Entity has therefore determined that it shares control with RMR over strategic financial and operating decision making, even though it only holds 10% of interest in the investee.

Refer to note 24 for further information on interests in joint ventures.

Note 11. Trade and other payables

	Consolidated	
	2020	2019
	\$	\$
<i>Current liabilities</i>		
Trade and other payables	<u>344,034</u>	<u>296,801</u>

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.

Note 12. Loans from related party

	Consolidated	
	2020	2019
	\$	\$
<i>Current liabilities</i>		
Loans from related party	<u>117,730,988</u>	<u>11,640,878</u>
<i>Non-current liabilities</i>		
Loans from related party	<u>-</u>	<u>77,681,310</u>
	<u>117,730,988</u>	<u>89,322,188</u>

The loans are AUD denominated and the current liability is repayable to the Ultimate Parent Company on demand and attracts no interest.

Australian Strategic Materials Ltd
Notes to the consolidated financial statements
30 June 2020

Note 12. Loans from related party (continued)

The non-current liability component in the prior year was repayable by 22 March 2027. On 30 June 2020 the loan term was changed to be repayable on demand. The total non current liability loan in 2019 represents the discounted value of \$110,000,000 of the loan as at balance date.

Note 13. Provisions

	Consolidated	
	2020	2019
	\$	\$
<i>Current liabilities</i>		
Employee benefits	144,807	10,860
<i>Non-current liabilities</i>		
Employee benefits	32,707	6,660
	177,514	17,520

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.

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

	Consolidated	
	2020	2019
	\$	\$
Employee benefits obligation expected to be settled after 12 months	21,805	-

Accounting policy for 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.

Australian Strategic Materials Ltd
Notes to the consolidated financial statements
30 June 2020

Note 14. Issued capital

	Consolidated			
	2020	2019	2020	2019
	Shares	Shares	\$	\$
Ordinary shares - fully paid	<u>5</u>	<u>5</u>	<u>1</u>	<u>1</u>

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.

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.

Note 15. Reserves

	Consolidated	
	2020	2019
	\$	\$
Capital contribution	<u>11,323,987</u>	<u>39,873,309</u>

This reserve is used to recognise the discounted value of a related party loan from the Ultimate Parent Company, Alkane Resources Ltd in accordance with AASB 9. This loan agreement was executed on 22 March 2017 for a term of ten years with no interest payable. In the current year the term of the loan was varied to become repayable on demand. As such, part of the capital contribution amount of \$28,549,322 is reversed.

Note 16. Accumulated losses

	Consolidated	
	2020	2019
	\$	\$
Accumulated losses at the beginning of the financial year	(11,817,686)	(8,570,104)
Loss after income tax (expense)/benefit for the year	<u>(4,264,802)</u>	<u>(3,247,582)</u>
Accumulated losses at the end of the financial year	<u>(16,082,488)</u>	<u>(11,817,686)</u>

Note 17. Fair value measurement

Accounting policy for fair value measurement

When an asset or liability, financial or non-financial, is measured at fair value for recognition or disclosure purposes, the fair value is based on the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date; and assumes that the transaction will take place either: in the principal market; or in the absence of a principal market, in the most advantageous market.

Fair value is measured using the assumptions that market participants would use when pricing the asset or liability, assuming they act in their economic best interests. For non-financial assets, the fair value measurement is based on its highest and best use. Valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, are used, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

Australian Strategic Materials Ltd
Notes to the consolidated financial statements
30 June 2020

Note 18. Remuneration of auditors

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

	Consolidated	
	2020	2019
	\$	\$
<i>Audit services - PricewaterhouseCoopers</i>		
Audit or review of the financial statements	120,600	11,003

Note 19. Contingent liabilities

The Consolidated Entity has contingent liabilities estimated at up to \$3,670,000 for the potential acquisition of parcels of land surrounding the Dubbo Project (2019: \$5,650,000). 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.

Note 20. 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 \$169,359 within the next twelve months (2019: \$207,741). 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 \$3,200,000 for the potential acquisition of parcels of land surrounding the Dubbo Project (2019: \$2,980,000). 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.

Note 21. Related party transactions

Parent entity

Australian Strategic Materials Ltd is the parent entity.

Subsidiaries

Interests in subsidiaries are set out in note 23.

Joint ventures

Interests in joint ventures are set out in note 24.

Key management personnel

Disclosures relating to key management personnel are set out in note 27 and the remuneration report included in the directors' report.

Transactions with related parties

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. These terms are documented in a service level agreement and represent normal commercial terms.

Australian Strategic Materials Ltd
Notes to the consolidated financial statements
30 June 2020

Note 21. Related party transactions (continued)

Receivable from and payable to related parties
Refer note 6 for details.

Loans to/from related parties
Refer note 12 for details.

Terms and conditions

With the exception of the related part loans, all other transactions were made on normal commercial terms and conditions and at market rates.

Note 22. Parent entity information

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

Statement of profit or loss and other comprehensive income

	Parent	
	2020	2019
	\$	\$
Profit/(loss) after income tax	(679,878)	3,596,882
Total comprehensive income	(679,878)	3,596,882

Balance sheet

	Parent	
	2020	2019
	\$	\$
Total current assets	112,972,484	(1)
Total assets	112,972,484	115,487,003
Total current liabilities	117,730,988	2,007,641
Total liabilities	117,730,988	111,826,602
Equity		
Issued capital	1	1
Reserves	11,323,981	
Retained profits/(accumulated losses)	(16,082,486)	3,660,400
Total equity/(deficiency)	(4,758,504)	3,660,401

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 2020 and 30 June 2019.

Contingent liabilities

The parent entity had no contingent liabilities as at 30 June 2020 and 30 June 2019.

Capital commitments - Property, plant and equipment

The parent entity had no capital commitments for property, plant and equipment as at 30 June 2020 and 30 June 2019.

Australian Strategic Materials Ltd
Notes to the consolidated financial statements
30 June 2020

Note 22. Parent entity information (continued)

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 JV 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 23. 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	
		2020 %	2019 %
Australian Strategic Materials (Holdings) Ltd (name changed from Australian Strategic Materials Ltd on 14 February 2020)	Australia	100.00%	100.00%
Toongi Pastoral Company Pty Ltd	Australia	100.00%	100.00%

Note 24. Interests in joint ventures

Interests in joint ventures are accounted for using the equity method of accounting. Information relating to joint ventures that are material to the Consolidated Entity are set out below:

Name	Principal place of business / Country of incorporation	Ownership interest	
		2020 %	2019 %
Rare Metals Resources Technology Corporation	South Korea	10.07%	-

Note 25. Events after the reporting period

On 16 July 2020, Alkane Resources Ltd's shareholders voted for the demerger of its critical materials business and assets (the ASM Business) from the remainder of Alkane Resources Ltd's business at the Extraordinary General Meeting.

The Consolidated Entity was demerged with its cash reserves and no bank debt. All interests in the Dubbo Project and associated assets (including land and water rights), together with the Company's investment in South Korean metals technology company Rare Metals Resources Technology Corporation, will be owned by the Consolidated Entity following the Demerger. The Consolidated Entity will have a focussed board and management team, a strategy to pursue the advancement of the "Clean Metal" metallisation technology, potential value-enhancing opportunities in relation to the Dubbo Project and will continue to be involved in off-take and financing discussions, including those already underway in relation to the Dubbo Project.

Australian Strategic Materials Ltd was admitted to the Official List of Australian Securities Exchange on 29 July 2020.

On 17 July 2020, the Ultimate Parent Company, Alkane Resources Ltd, and Australian Strategic Materials Ltd entered into a restructure deed as part of the demerger to capitalise \$113,000,000 and forgive \$4,730,991 of the related party loans to Australian Strategic Materials Ltd.

Australian Strategic Materials Ltd
Notes to the consolidated financial statements
30 June 2020

Note 25. Events after the reporting period (continued)

No other matter or circumstance has arisen since 30 June 2020 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.

Note 26. Reconciliation of loss after income tax to net cash used in operating activities

	Consolidated	
	2020	2019
	\$	\$
Loss after income tax (expense)/benefit for the year	(4,264,802)	(3,247,582)
Adjustments for:		
Depreciation and amortisation	79,961	72,219
Exploration provided for or written off	-	444,135
Increase in employee benefits	-	7,808
Finance charges	3,584,923	3,417,610
Equity accounted movement	9,609	-
Change in operating assets and liabilities:		
Decrease/(increase) in receivables	220,576	(262,711)
Decrease in consumables	-	4,587
Decrease (increase) in inventory	(247,276)	-
Increase/(decrease) in trade and other payables	143,799	(430,508)
Increase/(decrease) in deferred tax liabilities	(248,385)	72,869
Increase in other provisions	159,996	-
(Decrease)/Increase in biological assets	339,655	(243,707)
Net cash used in operating activities	<u>(221,944)</u>	<u>(165,280)</u>

Net debt reconciliation

This section sets out an analysis of net debt and the movements in net debt for each of the periods presented.

	Consolidated	
	2020	2019
	\$	\$
Cash and cash equivalents	18,543,908	26,968,287
Related party borrowings - repayable within one year *	(117,730,988)	(11,640,878)
Related party borrowings - repayable after one year**	-	(77,681,310)
Net debt	<u>(99,187,080)</u>	<u>(62,353,901)</u>

Australian Strategic Materials Ltd
Notes to the consolidated financial statements
30 June 2020

Note 26. Reconciliation of loss after income tax to net cash used in operating activities (continued)

	Cash	Related party borrowings repayable within one year *	Related party borrowings repayable after one year**	Total
Opening net debt	26,968,287	(11,640,878)	(77,681,310)	(62,353,901)
Cash flows	(8,424,379)	-	-	(8,424,379)
Transfers between categories	-	(77,681,310)	77,681,310	-
Other non-cash movements	-	(28,408,800)	-	(28,408,800)
Closing net debt	<u>18,543,908</u>	<u>(117,730,988)</u>	<u>-</u>	<u>(99,187,080)</u>

* The related party loan is current and repayable upon demand from the Ultimate Parent Company, Alkane Resources Ltd. Refer note 11.

** Represents the discounted value of related party loan balance of \$110,000,000 repayable 22 March 2027 (loan term in 2019).

Note 27. Key management personnel disclosures

Directors

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

I J Gandel
N P Earner
D I Chalmers
A D Lethlean
G M Smith
D G Woodall

Compensation

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

	Consolidated	
	2020	2019
	\$	\$
Short-term employee benefits	259,973	-
Post-employment benefits	24,577	-
Long-term benefits	83,658	-
	<u>368,208</u>	<u>-</u>

Compensation for the directors are paid for by the Ultimate Parent Company, Alkane Resources Ltd.

Note 28. Operating segments

Information about other business activities and operating segments are not separately reportable after the identification of reporting segments has been performed.

Note 29. Financial risk management

Financial risk management objectives

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. The group uses derivative financial instruments including gold forward and gold put option contracts to mitigate certain risk exposures.

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.

Market risk

Foreign currency risk

The majority of the group's expenditure are in Australian dollars as such the risk is not significant and is not currently required to be managed through the use of derivatives.

Price risk

The Consolidated Entity is currently not in production and has minimal income so there is no current requirement to mitigate commodity risk through the use of derivatives.

Interest rate risk

The group's main interest rate risk arises through its cash and cash equivalents and other financial assets held within financial institutions. The group minimises this risk by utilising fixed rate instruments where appropriate.

Summarised market risk sensitivity analysis:

	Interest rate risk					
	Impact on profit/(loss) after tax					
	30 June 2020			30 June 2019		
Carrying amount	+100BP	-100BP	Carrying amount	+100BP	-100BP	
\$000	\$000	\$000	\$000	\$000	\$000	
Financial assets						
Cash and cash equivalents	18,543,908	129,807	(129,807)	26,968,287	188,778	(188,778)
Receivables (current) *	97,002			296,896		
Receivables (non-current)	126,533	886	(886)	0		
Other financial assets	20,000	140	(140)	20,000	140	(140)
Financial liabilities						
Trade and other payables	(344,034)			(296,801)		
Total increase / (decrease) in profit		130,833	(130,833)		188,918	(188,918)

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

There is no exposure to foreign exchange risk or commodity price risk for the above financial assets and liabilities.

Note 28. 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.

(i) Risk management

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.

(ii) Credit quality

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.

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

Note 30. 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 31. Earnings per share

	Consolidated	
	2020	2019
	\$	\$
Loss after income tax attributable to the owners of Australian Strategic Materials Ltd	<u>(4,264,802)</u>	<u>(3,247,582)</u>
	\$	\$
Basic earnings per share	(852,960)	(649,516)
Diluted earnings per share	(852,960)	(649,516)

Australian Strategic Materials Ltd
Notes to the consolidated financial statements
30 June 2020

Note 31. Earnings per share (continued)

	Number	Number
Weighted average number of ordinary shares used in calculating basic earnings per share	<u>5</u>	<u>5</u>
Weighted average number of ordinary shares used in calculating diluted earnings per share	<u><u>5</u></u>	<u><u>5</u></u>

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.

Australian Strategic Materials Ltd
Directors' declaration
30 June 2020

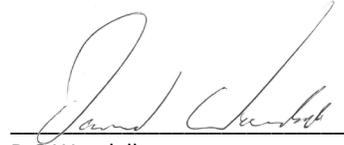
In the directors' opinion:

- the financial statements and notes set out on pages 13 to 38 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 30 June 2020 and of its performance for the financial year ended on that date; and
- the 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;
- 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



D G Woodall
Director

24 August 2020



Independent auditor's report

To the members of Australian Strategic Materials Ltd

Report on the audit of the financial report

Our opinion

In our opinion:

The accompanying financial report of Australian Strategic Materials Ltd (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 2020 and of its financial performance for the year then ended, and
- (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 2020
- 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 a summary of significant accounting policies, and
- 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 and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants (including Independence Standards)* (the Code) that are relevant to our audit of the financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

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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.

The principal activity of the Group during the course of the period was mineral evaluation activities for the Dubbo Project, a large in-ground resource of zirconium, hafnium, niobium and rare earth elements.



<i>Materiality</i>	<i>Audit scope</i>
<ul style="list-style-type: none"> • For the purpose of our audit we used overall Group materiality of \$1,395,000, which represents approximately 1% of the Group’s total assets benchmark. • 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 Group total assets because, in our view, it is the benchmark against which the performance of the Group is most commonly measured. • We selected 1% based on our professional judgement noting that it is also within the range of commonly acceptable asset related thresholds. 	<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.



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. We communicated the key audit matters to the Audit Committee.

<i>Key audit matter</i>	<i>How our audit addressed the key audit matter</i>
<p><i>Carrying value of exploration and evaluation assets</i></p> <p><i>(Refer to note 2 and note 9 to 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 is in accordance with AASB 6, and• 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 2020, 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 Directors' report and the Corporate 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 we do not and will not express an opinion or 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 9 of the directors' report for the year ended 30 June 2020.

In our opinion, the remuneration report of Australian Strategic Materials Ltd for the year ended 30 June 2020 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
24 August 2020