

Australian Strategic Materials Ltd

ABN 90 168 368 401

Annual Report - 30 June 2018

Australian Strategic Materials Ltd
Directors' report
30 June 2018

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 2018. 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 (Chairman from 1 September 2017)
N Earner was appointed Director from 1 September 2017
D I Chalmers
A D Lethlean
G Smith was appointed as Director from 29 November 2017

J S F Dunlop was a director and chairman from the beginning of the financial year until his resignation on 31 August 2017.

Principal activities

The principal activities of the Consolidated Entity during the course of the period was mineral evaluation activities for the Dubbo Project a large in-ground resource of zirconium, hafnium, niobium, yttrium and rare earth elements. The Consolidated Entity's subsidiaries Australian Strategic Materials (Holdings) Limited (ASM) 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.

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 \$2,956,014 (30 June 2017: \$1,283,665).

The Dubbo project is proceeding towards development as a potential strategic supply of critical minerals for a range of high-tech and sustainable technologies. It is based on a large resource of zirconium, hafnium, niobium, tantalum, yttrium and rare earth elements, located at Toongi, 30 kilometres south of the large regional centre of Dubbo in the Central West of NSW. The Dubbo Project is a unique, long-life asset with a potential mine life of 75 plus years. Unlike many projects of this kind, it is a polymetallic deposit providing potential revenue from multiple product streams.

The Dubbo Project remains ready for construction, subject to financing, with the mineral deposit and surrounding land wholly owned, all major State and Federal approvals in place, an established flowsheet and a solid business case. Efforts during the period focussed on product development and marketing with potential customers with a focus on signing offtake contracts.

Review of operations (continued)

The continued focus on product development has led to the execution of a binding agreement with Ziron Tech (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 have now been satisfied, 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. The new technology should allow the company to bypass traditional supply chains and sell products direct to the consumer. The commercial scale pilot plant being constructed is due to be commissioned in the second quarter of 2020.

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. 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

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

Matters subsequent to the end of the financial year

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, and other 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.

No other matter or circumstance has arisen since 30 June 2018 that has significantly affected, or may significantly affect the consolidated entity's operations, the results of those operations, or the consolidated entity's state of affairs in future financial years.

Likely developments and expected results of operations

The Consolidated Entity intends to continue evaluation activities in relation to the Dubbo Project 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.

Australian Strategic Materials Ltd
Directors' report
30 June 2018

Indemnity and insurance of officers

Alkane Resources Ltd (the Ultimate Parent Entity) 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 Entity 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 Entity 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 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.

Indemnity and insurance of auditor

The company has not, during or since the end of the financial year, indemnified or agreed to indemnify the auditor of the company or any related entity against a liability incurred by the auditor.

During the financial year, the company has not paid a premium in respect of a contract to insure the auditor of the company or any related entity.

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



N Earner
Director

21 April 2020

Australian Strategic Materials Ltd

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30 June 2018

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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 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 21 April 2020. The directors have the power to amend and reissue the financial statements.

Australian Strategic Materials Ltd
Consolidated statement of comprehensive income
For the year ended 30 June 2018

| | | Consolidated | |
|--|-------------|---------------------------|---------------------------|
| | Note | 30 June 2018 | 30 June 2017 |
| | | \$ | \$ |
| Revenue | | | |
| Other income | 3 | 2,026,475 | 789,743 |
| Expenses from continuing operations | | | |
| Professional fees and consulting services | | (358,436) | (333,451) |
| Dubbo consumables expenses | | (252,531) | (180,177) |
| Audit fees | | (12,541) | (13,102) |
| General and administration expenses | | (241,327) | (269,613) |
| Pastoral company expenses | | (894,449) | (492,030) |
| Finance charges | | (3,291,158) | (910,164) |
| Exploration provided for or written off | | (6,878) | (4,780) |
| | | <u>(3,030,845)</u> | <u>(1,413,574)</u> |
| Loss before income tax benefit | | (3,030,845) | (1,413,574) |
| Income tax benefit | 4 | <u>74,831</u> | <u>129,909</u> |
| Loss after income tax benefit for the year attributable to the owners of Australian Strategic Materials Ltd | 15 | (2,956,014) | (1,283,665) |
| Other comprehensive income for the year, net of tax | | <u>-</u> | <u>-</u> |
| Total comprehensive loss for the year attributable to the owners of Australian Strategic Materials Ltd | | <u>(2,956,014)</u> | <u>(1,283,665)</u> |

The above consolidated statement of comprehensive income should be read in conjunction with the accompanying notes

Australian Strategic Materials Ltd
Consolidated balance sheet
As at 30 June 2018

| | | Consolidated | |
|--------------------------------|-------------|---------------------|---------------------|
| | Note | 30 June 2018 | 30 June 2017 |
| | | \$ | \$ |
| Assets | | | |
| Current assets | | | |
| Cash and cash equivalents | 5 | 26,317,347 | 33,673,343 |
| Receivables | 6 | 68,046 | 119,956 |
| Consumables | | 6,407 | 14,376 |
| Biological assets | 7 | 11,565 | 218,073 |
| Total current assets | | <u>26,403,365</u> | <u>34,025,748</u> |
| Non-current assets | | | |
| Property, plant and equipment | 8 | 26,947,323 | 26,389,609 |
| Exploration and evaluation | 9 | 83,387,571 | 75,183,366 |
| Biological assets | 7 | 526,159 | 506,859 |
| Other financial assets | | 20,000 | 20,000 |
| Total non-current assets | | <u>110,881,053</u> | <u>102,099,834</u> |
| Total assets | | <u>137,284,418</u> | <u>136,125,582</u> |
| Liabilities | | | |
| Current liabilities | | | |
| Trade and other payables | 10 | 1,292,457 | 1,656,532 |
| Loans from related party | 11 | 5,876,237 | 7,141,140 |
| Provisions | 12 | 7,188 | 7,244 |
| Total current liabilities | | <u>7,175,882</u> | <u>8,804,916</u> |
| Non-current liabilities | | | |
| Loans from related party | 11 | 74,263,700 | 70,996,464 |
| Deferred tax | 4 | 24,539,106 | 22,063,764 |
| Provisions | 12 | 2,524 | 1,218 |
| Total non-current liabilities | | <u>98,805,330</u> | <u>93,061,446</u> |
| Total liabilities | | <u>105,981,212</u> | <u>101,866,362</u> |
| Net assets | | <u>31,303,206</u> | <u>34,259,220</u> |
| Equity | | | |
| Issued capital | 13 | 1 | 1 |
| Reserves | 14 | 39,873,309 | 39,873,309 |
| Accumulated losses | 15 | (8,570,104) | (5,614,090) |
| Total equity | | <u>31,303,206</u> | <u>34,259,220</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 2018

| | Contributed equity \$ | Capital Contribution \$ | Accumulated losses \$ | Total equity \$ |
|--|--------------------------------------|--|--------------------------------------|----------------------------|
| Consolidated | | | | |
| Balance at 1 July 2016 | 1 | - | (4,330,425) | (4,330,424) |
| Loss after income tax benefit for the year | - | - | (1,283,665) | (1,283,665) |
| Other comprehensive income for the year, net of tax | - | - | - | - |
| Total comprehensive loss for the year | - | - | (1,283,665) | (1,283,665) |
| <i>Transactions with owners in their capacity as owners:</i> | | | | |
| Intercompany loan discounting | - | 39,873,309 | - | 39,873,309 |
| Balance at 30 June 2017 | <u>1</u> | <u>39,873,309</u> | <u>(5,614,090)</u> | <u>34,259,220</u> |

A loan from the Ultimate Parent Company, Alkane Resources Ltd that is repayable on 22 March 2027 currently has no interest payable. Further to the requirements of AASB 9, the loan has been discounted and the discounted value is reflected in capital contribution reserve.

| | Contributed equity \$ | Capital Contribution \$ | Accumulated losses \$ | Total equity \$ |
|---|--------------------------------------|--|--------------------------------------|----------------------------|
| Consolidated | | | | |
| Balance at 1 July 2017 | 1 | 39,873,309 | (5,614,090) | 34,259,220 |
| Loss after income tax benefit for the year | - | - | (2,956,014) | (2,956,014) |
| Other comprehensive income for the year, net of tax | - | - | - | - |
| Total comprehensive loss for the year | - | - | (2,956,014) | (2,956,014) |
| Balance at 30 June 2018 | <u>1</u> | <u>39,873,309</u> | <u>(8,570,104)</u> | <u>31,303,206</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 2018

| | | Consolidated | |
|--|-------------|--------------------------|--------------------------|
| | Note | 30 June 2018 | 30 June 2017 |
| | | \$ | \$ |
| Cash flows from operating activities | | | |
| Rent received (inclusive of goods and services tax) | | 135,621 | 107,197 |
| Payments to suppliers (inclusive of goods and services) | | <u>(1,074,550)</u> | <u>(1,729,213)</u> |
| | | (938,929) | (1,622,016) |
| Interest received | | 653,116 | 191,383 |
| Other income | | 1,246,623 | 450,456 |
| Finance costs paid | | <u>(42,475)</u> | <u>(41,624)</u> |
| Net cash from/(used in) operating activities | 24 | <u>918,335</u> | <u>(1,021,801)</u> |
| Cash flows from investing activities | | | |
| Payments for property, plant and equipment | 8 | (807,492) | (264,900) |
| Payments for exploration and evaluation | 9 | <u>(8,752,108)</u> | <u>(7,887,534)</u> |
| Net cash used in investing activities | | <u>(9,559,600)</u> | <u>(8,152,434)</u> |
| Cash flows from financing activities | | | |
| Proceeds from borrowings from related party | | <u>1,285,269</u> | <u>42,800,022</u> |
| Net cash from financing activities | | <u>1,285,269</u> | <u>42,800,022</u> |
| Net increase/(decrease) in cash and cash equivalents | | (7,355,996) | 33,625,787 |
| Cash and cash equivalents at the beginning of the financial year | | <u>33,673,343</u> | <u>47,556</u> |
| Cash and cash equivalents at the end of the financial year | 5 | <u><u>26,317,347</u></u> | <u><u>33,673,343</u></u> |

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

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.

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 9 Financial Instruments

AASB 9 Financial Instruments addresses the classification, measurement and de-recognition of financial assets and financial liabilities, introduces new rules for hedge accounting and new impairment model for financial assets. The standard applies from 1 July 2018.

From 1 July 2018, the group classifies its financial assets in the following measurement categories:

- those to be measured subsequently at fair value (either through comprehensive income, or through profit or loss); and
- those to be measured at amortised cost.

The classification depends on the group's business model for managing financial assets and the contractual terms of the cash flows. For investments in equity instruments that are not held for trading, the group has made an irrevocable election at the time of initial recognition to account for the equity investment at fair value through other comprehensive income.

The group assesses on a forward looking basis the expected credit losses associated with its debt instruments carried at amortised cost and fair value through other comprehensive income (FVOCI). The impairment methodology applied depends on whether there has been a significant increase in credit risk. For trade receivables, the group applies the simplified approach permitted by AASB 9, which requires expected lifetime losses to be recognised from initial recognition of the receivables.

Trade receivables

The group applies the AASB 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all trade receivables. Other current receivables and prepayments were previously presented together with trade receivables but are now presented as other financial assets at amortised cost (receivables) and other current assets (prepayments) in the balance sheet, to reflect their different nature.

The group completed a detailed assessment of its financial assets as at 30 June 2018. Most of the requirements in AASB 139 for classification and measurement of the group's financial assets were carried forward in AASB 9. Hence, the group's accounting policy for financial assets did not change except for the application of new impairment rules.

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.

The group has applied the new rules from 1 July 2018.

Note 1. Significant accounting policies (continued)

AASB 15 Revenue from Contracts with Customers

The AASB has issued a new standard for the recognition of revenue. This will replace AASB 118 which covers contracts for goods and services and AASB 111 which covers construction contracts. The new standard is based on the principle that revenue is recognised when control of a good or service transfers to a customer – so a notion of control replaces the existing notion of risks and rewards. The standard permits a modified retrospective approach for the adoption. Under this approach entities will recognise transitional adjustments in retained earnings on the date of application (eg 1 July 2018) ie without restating the comparative period. They will only need to apply the new rules to contracts that are not completed as of the date of initial application.

Adoption of the new standard will be adopted from 1 July 2018 and the Group does not believe there will be a material impact as a result of adoption of the standard.

Revenue from the sale of goods is recognised when the group satisfies its performance obligations under its contract with the customer, by transferring such goods to the customer's control. Control is generally determined to be when the customer has the ability to direct the use of and obtain substantially all of the remaining benefits from that good.

The group does not expect to have any contracts where the period between the transfer of the promised goods or services to the customer and payment by the customer exceeds one year. Accordingly, the group does not adjust transaction prices for the time value of money.

New standards and interpretations not yet adopted

AASB 16 Leases

The group will adopt 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.

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.

Going concern

The consolidated entity had net assets of \$31,303,206 as at 30 June 2018 (2017: \$34,259,220), and a working capital surplus of \$19,227,483 as at 30 June 2018 (2017: \$25,220,832). The net assets include the balance of loans owing to Alkane Resources Ltd ("the ultimate parent entity") of \$80,139,937 (2017: \$78,137,604). The loans are AUD denominated and \$5,876,237 (2017: \$7,141,140) is payable on demand with the undiscounted balance of \$110,000,000 payable on 22 March 2027. Notwithstanding, the directors consider that the going concern basis of accounting is appropriate as the Ultimate Parent Entity has given an undertaking not to call the loans unless the consolidated entity can pay down the debt without interfering with normal business operations. The undertaking has been provided for a minimum of twelve months from the date of signing this financial report.

Basis of preparation

This financial report has been prepared because the Group is preparing for an initial public offering ("IPO") on the Australian Securities Exchange ("ASX"). The report is required for the purpose of including the financial performance for the period to 30 June 2018 and financial position as at 30 June 2018 in the public prospectus that will be lodged with the ASX prior to the IPO.

While this annual report for the year ended 30 June 2018 is a non-statutory report, it is a General Purpose Financial Report and has 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 available-for-sale financial assets, financial assets and liabilities at fair value through profit or loss, biological assets, investment properties, certain classes of property, plant and equipment and derivative financial instruments.

Note 1. Significant accounting policies (continued)

Basis of preparation (continued)

Critical accounting estimates

The preparation of the financial statements requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the consolidated entity's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed in note 2.

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 21.

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 2018 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.

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.

Note 1. Significant accounting policies (continued)

Current and non current classification (continued)

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.

Impairment of non-financial assets

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

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

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

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

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

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

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

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

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

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

New Accounting Standards and Interpretations not yet mandatory or early adopted

Australian Accounting Standards and Interpretations that have recently been issued or amended but are not yet mandatory, have not been early adopted by the consolidated entity for the annual reporting period ended 30 June 2018. The consolidated entity has not yet assessed the impact of these new or amended Accounting Standards and Interpretations.

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.

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 and other indefinite life intangible assets

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.

Alkane Resources Ltd, the ultimate parent entity, and its wholly-owned Australian controlled entities have implemented the tax consolidation legislation.

The ultimate parent, 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.

In addition to its own current and deferred tax amounts, the ultimate parent entity also recognises the current tax liabilities (or assets) and the deferred tax assets arising from unused tax losses and unused tax credits assumed from controlled entities in the tax consolidated group.

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

Recovery of deferred tax assets

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

Biological assets

Biological assets are measured at fair value less cost to sell. Costs to sell include the incremental selling costs but excludes finance costs and income taxes.

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

Changes in fair value of livestock are recognised in the statement of profit or loss.

Farming costs such as feeding, labour costs, pasture maintenance, veterinary services and sheering are expensed as incurred. The cost of purchase of the livestock plus transportation are capitalised as part of biological assets.

Note 3. Other income

| | Consolidated | |
|-------------------------|---------------------|---------------------|
| | 30 June 2018 | 30 June 2017 |
| | \$ | \$ |
| Interest income | 653,116 | 191,383 |
| Pastoral company income | 611,611 | 289,561 |
| Lease income | 124,704 | 97,609 |
| Sundry income | 637,044 | 211,190 |
| | <hr/> | <hr/> |
| Other income | <u>2,026,475</u> | <u>789,743</u> |

Revenue from the sale of goods is recognised when the group satisfies its performance obligations under its contract with the customer, by transferring such goods to the customer's control. Control is generally determined to be when the customer has the ability to direct the use of and obtain substantially all of the remaining benefits from that good.

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.

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Note 4. Income tax

| | Consolidated | |
|--|---------------------|---------------------|
| | 30 June 2018 | 30 June 2017 |
| | \$ | \$ |
| <i>Income tax benefit</i> | | |
| Current tax | (2,550,173) | (9,094,947) |
| Deferred tax - origination and reversal of temporary differences | 2,475,342 | 8,965,038 |
| Aggregate income tax benefit | <u>(74,831)</u> | <u>(129,909)</u> |
| Deferred tax included in income tax benefit comprises: | | |
| Increase in deferred tax liabilities | <u>2,475,342</u> | <u>8,965,038</u> |
| <i>Numerical reconciliation of income tax benefit and tax at the statutory rate</i> | | |
| Loss before income tax benefit | <u>(3,030,845)</u> | <u>(1,413,574)</u> |
| Tax at the statutory tax rate of 30% | (909,254) | (424,072) |
| Tax effect amounts which are not deductible/(taxable) in calculating taxable income: | | |
| Non-deductible expenses | 980,200 | 260,959 |
| R&D tax incentive | (145,777) | (282,209) |
| Over Provision for prior year | <u>-</u> | <u>315,413</u> |
| Income tax benefit | <u>(74,831)</u> | <u>(129,909)</u> |

| | Consolidated | |
|---|---------------------|---------------------|
| | 30 June 2018 | 30 June 2017 |
| | \$ | \$ |
| <i>Deferred tax asset</i> | | |
| Deferred tax asset comprises temporary differences attributable to: | | |
| Amounts recognised in profit or loss: | | |
| Accruals and provisions | 8,293 | 7,266 |
| Borrowing costs | 1,428 | 4,277 |
| Previously expensed blackhole costs | 56,802 | 71,928 |
| Property, plant and equipment | 1,973 | 2,146 |
| Offset against deferred tax liabilities | <u>(68,496)</u> | <u>(85,617)</u> |
| Deferred tax asset | <u>-</u> | <u>-</u> |

Note 4. Income tax (continued)

| | Consolidated | |
|---|---------------------|---------------------|
| | 30 June 2018 | 30 June 2017 |
| | \$ | \$ |
| <i>Deferred tax liability</i> | | |
| Deferred tax liability comprises temporary differences attributable to: | | |
| Amounts recognised in profit or loss: | | |
| Prepayments | - | 3,041 |
| Exploration | 24,607,602 | 22,146,340 |
| Set-off of deferred tax asset | <u>(68,496)</u> | <u>(85,617)</u> |
| Deferred tax liability | <u>24,539,106</u> | <u>22,063,764</u> |
| Movements: | | |
| Opening balance | 22,063,764 | 13,098,726 |
| Charged to profit or loss | <u>2,475,342</u> | <u>8,965,038</u> |
| Closing balance | <u>24,539,106</u> | <u>22,063,764</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 Entity, 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 Entity are recognised as amounts receivable or payable to that entity.

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Note 5. Cash and cash equivalents

| | Consolidated | |
|-----------------------|---------------------|---------------------|
| | 30 June 2018 | 30 June 2017 |
| | \$ | \$ |
| <i>Current assets</i> | | |
| Cash at bank | <u>26,317,347</u> | <u>33,673,343</u> |

Accounting policy for cash and cash equivalents

Cash and cash equivalents include 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 | |
|-----------------------|---------------------|---------------------|
| | 30 June 2018 | 30 June 2017 |
| | \$ | \$ |
| <i>Current assets</i> | | |
| Other receivables | 10,677 | 13,259 |
| Prepayments | 6,381 | 14,319 |
| GST receivables | <u>50,988</u> | <u>92,378</u> |
| | <u>68,046</u> | <u>119,956</u> |

Accounting policy for trade and other receivables

Trade receivables are initially recognised at fair value and subsequently measured at amortised cost using the effective interest method, less any provision for impairment. Trade receivables are generally due for settlement within 30 days.

Collectability of trade receivables is reviewed on an ongoing basis. Debts which are known to be uncollectable are written off by reducing the carrying amount directly. A provision for impairment of trade receivables is raised when there is objective evidence that the consolidated entity will not be able to collect all amounts due according to the original terms of the receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation and default or delinquency in payments (more than 60 days overdue) are considered indicators that the trade receivable may be impaired. The amount of the impairment allowance is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. Cash flows relating to short-term receivables are not discounted if the effect of discounting is immaterial.

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Note 7. Biological assets

| | Consolidated | |
|---------------------------|---------------------|---------------------|
| | 30 June 2018 | 30 June 2017 |
| | \$ | \$ |
| <i>Current assets</i> | | |
| Biological assets | 11,565 | 218,073 |
| <i>Non-current assets</i> | | |
| Biological assets | 526,159 | 506,859 |
| | <u>537,724</u> | <u>724,932</u> |

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

Note 8. Property, plant and equipment

| | Consolidated | |
|--------------------------------|---------------------|---------------------|
| | 30 June 2018 | 30 June 2017 |
| | \$ | \$ |
| <i>Non-current assets</i> | | |
| Land and buildings - at cost | 26,155,481 | 26,133,286 |
| Less: Accumulated depreciation | (403) | - |
| | <u>26,155,078</u> | <u>26,133,286</u> |
| Plant and equipment - at cost | 261,082 | 242,640 |
| Less: Accumulated depreciation | (72,341) | (32,371) |
| | <u>188,741</u> | <u>210,269</u> |
| Capital Work in Progress | 603,504 | 46,054 |
| | <u>26,947,323</u> | <u>26,389,609</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 2016 | 26,074,170 | - | 78,826 | 26,152,996 |
| Additions | - | - | 268,984 | 268,984 |
| Transfers in/(out) | 59,116 | 242,640 | (301,756) | - |
| Depreciation expense | - | (32,371) | - | (32,371) |
| | <u>26,133,286</u> | <u>210,269</u> | <u>46,054</u> | <u>26,389,609</u> |
| Balance at 30 June 2017 | 26,133,286 | 210,269 | 46,054 | 26,389,609 |
| Additions | - | - | 598,087 | 598,087 |
| Transfers in/(out) | 22,195 | 18,442 | (40,637) | - |
| Depreciation expense | (403) | (39,970) | - | (40,373) |
| | <u>26,155,078</u> | <u>188,741</u> | <u>603,504</u> | <u>26,947,323</u> |
| Balance at 30 June 2018 | <u>26,155,078</u> | <u>188,741</u> | <u>603,504</u> | <u>26,947,323</u> |

Note 8. Property, plant and equipment (continued)

All property, plant and equipment are 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 asset carrying value amount is written down immediately to its recoverable amount if the assets carrying amount is greater than its estimated recoverable amount.

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

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

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

| | |
|------------------------|------------|
| Buildings | 40 years |
| Leasehold improvements | 3-10 years |
| Plant and equipment | 3-7 years |

Note 9. Exploration and evaluation

| | Consolidated | |
|---|---------------------|---------------------|
| | 30 June 2018 | 30 June 2017 |
| | \$ | \$ |
| Opening balance | 75,183,367 | 66,946,832 |
| Expenditure capitalised during the year | 8,211,082 | 8,241,315 |
| Amounts provided for or written off | (6,878) | (4,780) |
| Closing balance | <u>83,387,571</u> | <u>75,183,367</u> |

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.

Note 9. Exploration and evaluation (continued)

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.

Note 10. Trade and other payables

| | Consolidated | |
|----------------------------|---------------------|---------------------|
| | 30 June 2018 | 30 June 2017 |
| | \$ | \$ |
| <i>Current liabilities</i> | | |
| Trade and other payables | <u>1,292,457</u> | <u>1,656,532</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 11. Loans from related party

| | Consolidated | |
|--------------------------------|--------------------------|--------------------------|
| | 30 June 2018 | 30 June 2017 |
| | \$ | \$ |
| <i>Current liabilities</i> | | |
| Loans from related party | <u>5,876,237</u> | <u>7,141,140</u> |
| <i>Non-current liabilities</i> | | |
| Loans from related party | <u>74,263,700</u> | <u>70,996,464</u> |
| | <u><u>80,139,937</u></u> | <u><u>78,137,604</u></u> |

The loans are AUD denominated and the current liability is repayable to the Ultimate Parent Entity on demand and the non-current liability component repayable by 22 March 2027. The loan facility attracts no interest. The total non current liability loan repayable is \$110,000,000, the above value represents the discounted values of the loan as at balance date.

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Note 12. Provisions

| | Consolidated | |
|--------------------------------|---------------------|---------------------|
| | 30 June 2018 | 30 June 2017 |
| | \$ | \$ |
| <i>Current liabilities</i> | | |
| Employee benefits | 7,188 | 7,244 |
| <i>Non-current liabilities</i> | | |
| Employee benefits | 2,524 | 1,218 |
| | <u>9,712</u> | <u>8,462</u> |

Accounting policy for employee benefits

Short-term employee benefits

Liabilities for wages and salaries, including non-monetary benefits, annual leave and long service leave expected to be settled wholly within 12 months of the reporting date are measured at the amounts expected to be paid when the liabilities are settled.

Other long-term 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 national government bonds with terms to maturity and currency that match, as closely as possible, the estimated future cash outflows.

Note 13. Issued capital

| | Consolidated | | | |
|------------------------------|---------------------|---------------------|---------------------|---------------------|
| | 30 June 2018 | 30 June 2017 | 30 June 2018 | 30 June 2017 |
| | 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 14. Reserves

| | Consolidated | |
|----------------------|---------------------|---------------------|
| | 30 June 2018 | 30 June 2017 |
| | \$ | \$ |
| Capital contribution | <u>39,873,309</u> | <u>39,873,309</u> |

This reserve is used to recognise the discounted value of a related party loan from the Ultimate Parent Entity, 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.

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Note 15. Accumulated losses

| | Consolidated | |
|---|---------------------------|---------------------------|
| | 30 June 2018 | 30 June 2017 |
| | \$ | \$ |
| Accumulated losses at the beginning of the financial year | (5,614,090) | (4,330,425) |
| Loss after income tax benefit for the year | <u>(2,956,014)</u> | <u>(1,283,665)</u> |
| Accumulated losses at the end of the financial year | <u><u>(8,570,104)</u></u> | <u><u>(5,614,090)</u></u> |

Note 16. 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.

Note 17. 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 | |
|--|-----------------------|-----------------------|
| | 30 June 2018 | 30 June 2017 |
| | \$ | \$ |
| <i>Audit services - PricewaterhouseCoopers</i> | | |
| Audit of the financial statements | <u>12,541</u> | <u>13,102</u> |
| <i>Other services - PricewaterhouseCoopers</i> | | |
| Other advisory services | <u>189,300</u> | <u>137,610</u> |
| | <u><u>201,841</u></u> | <u><u>150,712</u></u> |

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Note 18. 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 \$211,425 within the next twelve months (2017: \$207,105). 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 \$2,980,000 for the potential acquisition of parcels of land surrounding the Dubbo Project (2017: \$2,700,000). 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 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 (2017: \$3,340,000). 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. Related party transactions

Parent entity

Australian Strategic Materials Ltd is the parent entity.

Subsidiaries

Interests in subsidiaries are set out in note 22.

Transactions with related parties

The following transactions occurred with related parties:

| | Consolidated | |
|--|---------------------|---------------------|
| | 30 June 2018 | 30 June 2017 |
| | \$ | \$ |
| Payment for goods and services: | | |
| Purchase of goods from other related party | 420 | 3,120 |

Nuclear IT, a director related entity, provides information technology consulting services to the Group 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.

Receivable from and payable to related parties

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

Loans to/from related parties

Refer note 11 for details.

Terms and conditions

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

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Note 21. Parent entity information

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

Statement of comprehensive income

| | Parent | |
|--------------------------------|---------------------|---------------------|
| | 30 June 2018 | 30 June 2017 |
| | \$ | \$ |
| Profit/(loss) after income tax | 176,366 | (4,429,270) |
| Total comprehensive income | 176,366 | (4,427,270) |

Balance sheet

| | Parent | |
|---------------------------|---------------------|---------------------|
| | 30 June 2018 | 30 June 2017 |
| | \$ | \$ |
| Total current assets | 562,626 | 1,683,046 |
| Total assets | 115,759,970 | 113,581,300 |
| Total current liabilities | 5,876,237 | 7,141,140 |
| Total liabilities | 80,139,937 | 78,137,604 |
| Equity | | |
| Issued capital | 1 | 1 |
| Capital contribution | 39,873,309 | 39,873,309 |
| Accumulated losses | (4,253,277) | (4,429,614) |
| Total equity | 35,620,033 | 35,443,696 |

The financial information for the parent entity has been prepared on the same basis as the consolidated financial statements, except Ultimate Parent Entity, Alkane Resources Ltd and its wholly-owned Australian controlled entities have implemented the tax consolidation legislation. Refer to note 1 for further detail.

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 2018 and 30 June 2017.

Contingent liabilities

The parent entity had no contingent liabilities as at 30 June 2018 and 30 June 2017.

Capital commitments - Property, plant and equipment

The parent entity had no capital commitments for property, plant and equipment as at 30 June 2018 and 30 June 2017.

Significant accounting policies

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

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

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Notes to the consolidated financial statements
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Note 22. 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 | |
|--|---|--------------------|-------------------|
| | | 30 June 2018 % | 30 June 2017 % |
| 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 23. Events after the reporting period

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, and other 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.

No other matter or circumstance has arisen since 30 June 2018 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 24. Reconciliation of loss after income tax to net cash from/(used in) operating activities

| | Consolidated | |
|--|--------------------|--------------------|
| | 30 June 2018 \$ | 30 June 2017 \$ |
| Loss after income tax benefit for the year | (2,956,014) | (1,283,665) |
| Adjustments for: | | |
| Depreciation and amortisation | 40,373 | 32,371 |
| Exploration provided for or written off | 6,878 | 4,780 |
| Increase in employee benefits | 1,251 | 7,018 |
| Non deductible finance charges | 3,267,236 | 869,773 |
| Change in operating assets and liabilities: | | |
| Decrease/(increase) in receivables | 61,510 | (50,224) |
| Decrease/(increase) in consumables | 195,178 | (14,377) |
| Increase in trade and other payables | 173,454 | 267,364 |
| (Decrease) in deferred tax liabilities | (74,831) | (129,909) |
| Increase/(decrease) in biological assets | 203,300 | (724,932) |
| Net cash from/(used in) operating activities | <u>918,335</u> | <u>(1,021,801)</u> |

Non-cash investing and financing activities

There were no non-cash investing and financing activities during the current period.

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Note 24. Reconciliation of loss after income tax to net cash from/(used in) operating activities (continued)

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 | | | |
|--|---------------------|---------------------|--|--|
| | 30 June 2018 | 30 June 2017 | | |
| | \$ | \$ | | |
| Cash and cash equivalents | 26,317,347 | 33,673,343 | | |
| Related party borrowings - repayable within one year * | (5,876,237) | (7,141,140) | | |
| Related party borrowings - repayable after one year | (74,263,700) | (70,996,464) | | |
| Net debt | (53,822,590) | (44,464,261) | | |

| | Cash | Related party borrowings repayable within one year * | Related party borrowings repayable after one year** | Total |
|--------------------------|-------------------|--|--|---------------------|
| Opening net debt | 33,673,343 | (7,141,140) | (70,996,464) | (44,464,261) |
| Cash flows | (7,355,996) | (1,285,270) | - | (8,641,266) |
| Other non-cash movements | - | 2,550,173 | (3,267,236) | (717,063) |
| Closing net debt | 26,317,347 | (5,876,237) | (74,263,700) | (53,822,590) |

* The related party loan is current and repayable upon demand from the ultimate parent entity, Alkane Resources Ltd. Refer Note 11.

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

Note 25. 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.

(a) Market risk

(i) 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.

Note 25. Financial risk management (continued)

(ii) Commodity price risk

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

(iii) 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 2018 | | | 30 June 2017 | | |
| Carrying amount | +100BP | -100BP | Carrying amount | +100BP | -100BP | |
| \$ | \$ | \$ | \$ | \$ | \$ | |
| Financial assets | | | | | | |
| Cash and cash equivalents | 26,317,347 | 184,221 | (184,221) | 33,673,343 | 235,713 | (235,713) |
| Receivables | 68,046 | - | - | 119,956 | - | - |
| Other financial assets | 20,000 | 140 | (140) | 20,000 | 140 | (140) |
| Financial liabilities | | | | | | |
| Trade and other payables | (1,292,457) | - | - | (1,656,532) | - | - |
| Total increase/(decrease) | | <u>184,361</u> | <u>(184,361)</u> | | <u>235,853</u> | <u>(235,853)</u> |

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

(b) 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.

(c) 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.

Australian Strategic Materials Ltd
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Note 25. Financial risk management (continued)

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

Note 26. Key management personnel disclosures

Directors

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

| | |
|--------------|--|
| I Gandel | Chairman from 1 September 2017 |
| N Earner | Appointed 1 September 2017 |
| D I Chalmers | |
| A D Lethlean | |
| J S Dunlop | Director and Chairman until resignation 31 August 2017 |

Compensation

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

Note 27. 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.

Australian Strategic Materials Ltd
Directors' declaration
30 June 2018

In the directors' opinion:

- the financial statements and notes set out on pages 5 to 28 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 2018 and of its performance for the financial year ended on that date
- 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.

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



N Earner
Director

21 April 2020



Independent auditor's report

To the members of Australian Strategic Materials Ltd

Our opinion

In our opinion the accompanying financial report presents fairly, in all material respects, the financial position of Australian Strategic Materials Ltd (the Company) and its controlled entities (together the Group) as at 30 June 2018 and its financial performance and its cash flows for the year then ended in accordance with Australian Accounting Standards.

What we have audited

The Group financial report comprises:

- the consolidated balance sheet as at 30 June 2018
- the consolidated statement of comprehensive income for the year then ended
- the consolidated statement of changes in equity for the year then ended
- the consolidated statement of cash flows for the year then ended
- the notes to the consolidated financial statements, which include a summary of significant accounting policies
- 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 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.

Emphasis of matter - basis of accounting and restriction on use

We draw attention to Note 1 in the financial report, which describes the basis of accounting. The financial report has been prepared for the purpose of meeting the requirements of Australian Strategic Materials Ltd and its members. As a result, the financial report may not be suitable for another purpose. Our report is intended solely for Australian Strategic Materials Ltd and its members and should not be used by parties other than Australian Strategic Materials Ltd and its members. Our opinion is not modified in respect of this matter.

PricewaterhouseCoopers Securities Ltd, ACN 003 311 617, ABN 54 003 311 617, Holder of Australian Financial Services Licence No 244572

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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 2018, but does not include the financial report and our auditor's report thereon.

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

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

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

Responsibilities of management and the directors for the financial report

Management is responsible for the preparation and fair presentation of the financial report in accordance with Australian Accounting Standards, and for such internal control as Management determine is necessary to enable the preparation of the financial report that is free from material misstatement, whether due to fraud or error.

In preparing the financial report, Management is 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 Management either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

The directors are responsible for overseeing the Group's financial reporting process.

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: http://www.auasb.gov.au/auditors_responsibilities/ar3.pdf. This description forms part of our auditor's report.

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

Helen Bathurst
Authorised Representative
PricewaterhouseCoopers Securities Ltd

Perth
21 April 2020