Rare Earths.
Critical Minerals.
High-Tech Metals.

10 November 2022

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Company Announcements Office
ASX Limited
20 Bond Street
SYDNEY NSW 2000

2022 Annual Financial Report

ASM has been contacted by the Australian Securities & Investments Commission ("ASIC") requesting additional clarification of the material risks affecting the Company in connection with its FY2022 Annual Report, in line with guidance set out in ASIC Regulatory Guide 247 '*Effective disclosure in an operating and financial review'.*

Following discussions with ASIC, the Company wishes to update its FY2022 Annual Report by adding the addendum set out below to the Directors' report of the 2022 Annual Financial Report for the year ended 30 June 2022 released by Australian Strategic Materials Limited ("ASM" or the "Company") on 24 October 2022.

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This document has been authorised for release to the market by the Board.

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In response to correspondence received from the Australian Securities and Investments Commission, the Company provides the following information.

For the purposes of section 299A(1) of the Corporations Act 2001 (Cth), this addendum summarises the material business risks that the Company considers could impede the achievement of its future operational and financial success, and which are relevant to the expectations of the directors that the Company has adequate financial resources to continue as a going concern.

These risks represent the Company's current risk register assessment of the key risks that could potentially affect the Company's business, which register the Company routinely updates as part of its risk management process. Further information in relation to the Company's risk management processes are contained in the Company's Risk Management Policy, which can be found at: https://asm-au.com/wp-content/uploads/2022/04/ASM_Risk-Management-Policy_24032022.pdf

ASM seeks to manage risk to its business through appropriate risk controls and mitigants, however, if any of the following risks materialise, business, financial condition and operating results are likely to be adversely impacted. The risks set out below do not constitute an exhaustive list of all risks involved with an investment in ASM.

COVID-19

The impact of COVID-19 to date has included periods of significant volatility in financial, commodities and other markets. This volatility, if it continues, could have an adverse impact on the Company's people, suppliers, business, financial condition and production and exploration activities.

The Company has implemented measures across its business with the intent of minimising the risk of infection for individuals and the impact of COVID-19 on the Company's business including: site specific COVID Management Plans have been implemented which include where appropriate working from home where practicable, shift rotations, temperature and health screenings and increased cleaning. The Company closely monitors and reviews management plans against guidance from federal and state governments. However, there is no guarantee that the Company's efforts to address the adverse impacts of COVID-19 will be effective.

There is a risk that if the duration of events surrounding COVID-19 are prolonged, the Company may

need to take additional measures in order to respond appropriately (for example, restructuring to reduce further costs from its business and raising additional funding).

There are also other changes in the domestic and global macroeconomic environment associated with the events relating to COVID-19 that are beyond the control of the Company and may be exacerbated in an economic recession or downturn. These include but are not limited to (i) changes in inflation, interest rates and foreign currency exchange rates; (ii) changes in employment levels and labour costs; (iii) changes in aggregate investment and economic output; and (iv) other changes in economic condition which may affect the revenue or costs of the Company.

Reliance on key personnel

ASM is a development company and will be dependent on its directors, managers and consultants to implement its business strategy. A number of factors, including the departure of senior management of ASM or a failure to attract or retain suitably qualified key employees, could adversely affect ASM's business strategy.

Development of Dubbo Project and commercialisation of Korean Metals Plant

The Company's ability to successfully develop and commercialise the Dubbo Project, may be affected by numerous factors including but not limited to: macro-economic conditions, obtaining required approvals, ability to obtain sufficient funding, customer offtakes, delays in commissioning or ramp up, the plant not performing in accordance with expectations and costs overruns.

The Company's ability to successfully commercialise the Korean Metals Plant may be affected by numerous factors including but not limited to: its ability to secure raw materials and customer offtakes, delays in commissioning or ramp up, the plant not performing in accordance with expectations and costs overruns.

If the Company is unable to mitigate these factors and others not listed here, this could result in the Company not realising its development plans at the Dubbo Project and/or being unable to commercialise the Korean Metals Plant (or realise its full potential) or in the case of the Dubbo Project result in such plans costing more than expected or taking longer to realise than expected. Ultimately, this could have an adverse impact on the Share price.

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Title

Currently, ASM wholly owns all mining tenements required to operate and develop the Dubbo Project. Renewal of titles is made by way of application to the relevant department. There is no guarantee that a renewal will be automatically granted other than in accordance with the applicable state or territory mining legislation. In addition, the relevant department may impose conditions on any renewal, including relinquishment of ground.

Tenure, Native Title, Aboriginal Heritage and Land Claims Risks

Interests in exploration and mining tenements in Australia are governed by state legislation and are evidenced by the granting of leases or licences. Each lease or licence is for a specific term and carries with it annual expenditure and reporting conditions as well as other conditions requiring compliance. These conditions include the requirement, for exploration licences, for reduction in the area held under licence from time to time unless it is considered that special circumstances apply. Consequently, ASM could lose title to, or its interest in, its tenements if licence conditions are not met or if expenditure commitments are not met.

It is possible that, in relation to tenements in which ASM has an interest or may acquire such an interest, there may be areas over which legitimate native title rights exist or which are subject to native title claims made under the *Native Title Act 1993* (Cth) or Aboriginal land claims made under the *Aboriginal Land Rights Act 1983* (NSW). In such circumstances, the ability of ASM to progress from the exploration phase to the development and mining phases of the operation, may be adversely affected.

Further, it is possible that there will exist on ASM's mining tenements, areas containing sacred sites or sites of significance to Aboriginal people in accordance with their tradition that are protected under the *Aboriginal and Torres Strait Islander Heritage Protection Act 1984* (Cth). As a result, land within the tenements may be subject to restrictions on exploration, mining or other uses and/or significant approval hurdles may apply.

Mineral Resource and Ore Reserve Estimates

Mineral Resource and Ore Reserve estimates are expressions of judgement based on knowledge, experience and industry practice. Estimates, which were valid when originally calculated, may alter when new information or techniques become available. In addition, by their very nature, Mineral

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Resource and Ore Reserve estimates are imprecise and depend to some extent on interpretations, which may prove to be inaccurate. As further information becomes available through additional fieldwork and analysis, the Mineral Resource and Ore Reserve estimates may change.

Accordingly, the actual resources and reserves may materially differ from these estimates and assumptions and no assurances can be given that the Mineral Resource and Ore Reserve estimates and the underlying assumptions will be realised. This could result in alterations to development and mining/extraction plans which may in turn affect ASM's operations and ultimately ASM's financial performance and the value of Shares.

Exploration risks

Exploration is a high risk activity that requires large amounts of expenditure over extended periods of time. ASM's exploration activities will also be subject to all the hazards and risks normally encountered in the exploration of minerals, including climatic conditions, hazards of operating vehicles and plant, risks associated with operating in remote areas and other similar considerations. Conclusions drawn during exploration and development are subject to the uncertainties associated with all sampling techniques and to the risk of incorrect interpretation of geological, geochemical, geophysical, drilling and other data.

Commodity prices

ASM's future prospects and the Share price will be influenced by the prices obtained for the commodities produced and targeted in ASM's development and exploration programs. Commodity prices fluctuate and are impacted by factors including the relationship between global supply and demand for minerals, forward selling by producers, costs of production, geopolitical factors (including trade tensions), hostilities and general global economic conditions.

Commodity prices are also affected by the outlook for inflation, interest rates, currency exchange rates and supply and demand factors. These factors may have an adverse effect on ASM's production and exploration activities and any subsequent development and production activities, as well as its ability to fund its future activities. Further, rare earth products are not exchange traded commodities.

ASM will require contracts for sale of these mineral commodities. There is no guarantee the Company will secure contracts on terms favourable to the Company. Rare earth product prices will depend on

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available markets at acceptable prices and distribution and other costs. The market prices for rare earth products have been volatile and are influenced by numerous factors and events beyond the control of the Company. For example, if industries reduce their demand for end-products that utilise rare earth products, the resulting change in demand for rare earth products could have an adverse effect on the Company's business.

Competition

ASM's ability to enter into contracts for the supply of products at profitable prices may be adversely affected by the introduction of new suppliers and any increase in competition in the global critical materials market, either of which could increase the global supply of these products and thereby potentially lower the prices.

Supply chain and counterparty risk

The development and commercialisation of the Dubbo Project will involve a complex supply chain. The Company will depend on suppliers of raw materials, services, equipment and infrastructure to develop the project, and on providers of logistics to ensure products are delivered. Failure of significant components of this supply chain due to strategic factors such as business failure or serious operational factors could have an adverse effect on the Company's business and results of operations.

The ability of the Company to develop and commercialise the Dubbo Project and to commercialise the Korean Metals Plant will also depend on the performance of the counterparties under the various agreements it has entered into or will enter into. If any counterparty does not perform its obligations to an acceptable standard under the respective agreement, this may have a material adverse effect on the Company's operations, financial condition and prospects.

Legislative changes, government policy and approvals

Changes in government, monetary policies, taxation and other laws in Australia, Korea or internationally may impact the Company's operations and the value of the Shares. The Company requires government regulatory approvals for its operations. As at the date of this Presentation, the Company has received all major state and federal approvals and licences required for execution of the Dubbo Project.

However, the impact of actions, including delays and inactions, by state and federal governments may

affect the Company's activities including such matters as access to lands and infrastructure, compliance with environmental regulations, production and exploration activities. This may from time to time affect timing and scope of work to be undertaken.

No guarantee can be given that all necessary permits, authorisations, agreements or licences currently granted to ASM will be renewed as required or that where further permits, authorisations, agreements or licences are required, that they will be provided to the Company by government bodies.

Taxation

In all places where ASM has operations, in addition to the normal level of income tax imposed on all industries, ASM may be required to pay government royalties, indirect taxes, goods and services tax and other imposts which generally relate to revenue or cash flows. Industry profitability can be affected by changes in government taxation policies.

Future funding requirements

ASM's activities will require substantial expenditure going forward, particularly with respect to the construction of the Dubbo Project.

No decision has been made in relation to the funding of the Dubbo Project, but any additional equity financing that may be required may be undertaken at lower prices than the current market price or may involve restrictive covenants which limit the Company's operations and business strategy. Further, any debt financing may involve restrictions on financing and operating activities.

Although the Company believes that additional funding can be obtained, no assurances can be made that appropriate funding will be available on terms favourable to the Company or at all. If ASM is unable to obtain additional financing as required, it may be required to scale back its development program. In addition, ASM's ability to continue as a going concern may be diminished.

Economic factors

The operating and financial performance of the Company is influenced by a variety of general economic and business conditions, including levels of consumer spending, oil prices, inflation, interest rates and exchange rates, supply and demand, industrial disruption, access to debt and capital markets and government fiscal, monetary and regulatory policies. Changes in general economic conditions may result from many factors including government policy, international economic conditions, significant

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acts of terrorism, hostilities or war or natural disasters.

A prolonged deterioration in general economic conditions, including an increase in interest rates or a decrease in consumer and business demand, could be expected to have an adverse impact on the Company's operating and financial performance and financial position. The Company's future possible revenues and share price can be affected by these factors, which are beyond the control of the Company.

Foreign exchange

Foreign exchange rates fluctuate over time. Fluctuating exchange rates have a direct effect on ASM operating costs and cash flows expressed in Australian dollars.

Occupational health and safety

Exploration and production activities may expose ASM's staff and contractors to potentially dangerous working environments. Occupational health and safety legislation and regulations differ in each jurisdiction. If any of the Company's employees or contractors suffers injury or death, compensation payments or fines may be payable and such circumstances could result in the loss of a licence or permit required to carry on the business. Such an incident may also have an adverse effect on the Company's business and reputation.

Environment

ASM's projects are subject to the environmental laws and regulations of Australia and Korea (including statutory rehabilitation obligations that the Company will need to comply with in the future and which may be material). While ASM proposes to comply with applicable laws and regulations and conduct its programs in a responsible manner with regard to the environment, there is the risk that ASM may incur liability for any breaches of these laws and regulations.

The Company is also unable to predict the effect of additional environmental laws and regulations which may be adopted in the future, including whether any such laws or regulations would materially increase the Company's cost of doing business or affect its operations. There can be no assurances that new environmental laws, regulations or stricter enforcement policies, once implemented, will not oblige the Company to incur significant expenses and undertake significant investments which could have a material adverse effect on the Company's business, financial condition and performance.

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Climate change

The impacts of climate change may affect the Company's operations and the markets in which the Company may sell its products through regulatory changes aimed at reducing the impact of, or addressing climate change, including reducing or limiting carbon emissions, technological advances and other market or economic responses (including increased capital and operating costs, including increased costs of inputs and raw materials).

Climate change may also result in more extreme weather events and physical impacts on the Company due to the energy intensive nature of the Company's proposed operations, and the Company's reliance on either fossil fuels or favourable weather events for generating energy for its proposed mining and processing activities.

Insurance

The Company's business is subject to a number of risks and the materialisation of any of these risks could result in damage to property, personal injury or death, environmental damage, delays in development, monetary losses and possible legal liability (including for indirect or consequential losses suffered by third parties). The Company intends to limit its exposure to such risks by contractually limiting its liability and insuring its business activities and operations in accordance with industry practice.

However, in certain circumstances, the Company's insurance may not be available or of a nature or level to provide adequate insurance to cover all liability. The occurrence of an event that is not covered or fully covered by insurance may cause substantial delays to the Dubbo Project and/or require significant capital outlays, which could have a material adverse effect on the business, financial condition and results of the Company. In addition, there is a risk that an insurer defaults in the payment of a legitimate claim by the Company.

Further, any increase in the cost of insurance policies; any change in the availability of insurance policies or in the terms, conditions or exclusions on which those policies are offered or renewed; or any inability to claim, or recover against the Company's insurance policies, including as a result of the current uncertain macroeconomic environment, could have a material adverse effect on the Company's business, financial condition and results of the Company.

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Political risk and instability

ASM's main project is the Dubbo Project located in Australia. ASM also operates in South Korea through its investment in the Korean Metals Plant located in Ochang. ASM is subject to the risk that it may not be able to carry out its activities as it intends, including because of a change in government, legislation, regulation or policy.

International conflicts risk

The current evolving conflict between Russia and Ukraine (**Russia-Ukraine Conflict**) is having a material effect on the global economy. These hostilities have created uncertainty for capital markets around the world, and this uncertainty may lead to adverse consequences for the Company's business operations. Further, various governments and industries have taken measures and imposed sanctions in response to the Russia-Ukraine Conflict (such as changes to import/export restrictions and other economic sanctions). Whist ASM does not have a relationship with any party domiciled in Russia, such measures and sanctions may cause disruptions to the Company's supply chains and adversely impact commodity prices. Such events may affect the financial performance of ASM. Given the Russia-Ukraine Conflict is continually evolving, the consequences are inherently uncertain. Further, there is no certainty that similar conflicts which impact global markets will not arise in the future.

Litigation risks

The Company is exposed to possible litigation risks including native title claims, tenure disputes, environmental claims, occupational health and safety claims and employee claims. Further, the Company may be involved in disputes with other parties in the future which may result in litigation. Any such claim or dispute if proven, may impact adversely on the Company's operations, financial performance and financial position.

Force Majeure

The Company's projects now or in the future may be adversely affected by risks outside the control of the Company, including labour unrest, civil disorder, war, subversive activities or sabotage, fires, floods, pandemics (i.e. COVID-19), explosions or other catastrophes, epidemics or quarantine restrictions.

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Other risks

ASM considers that the following could provide material catalysts for ASM's share price traded on the ASX: the execution of offtake contracts for key products from the Dubbo Project; the progression of the process towards the procurement of significant debt financing, and/or; the successful commissioning of the South Korea Metals Plant.

Other key risks are detailed in section 14 of the Dubbo Project Summary (ASX Announcement `Dubbo Project Optimisation Delivers Strong Financials', dated 7 December 2021).

Risk Management

ASM seeks to manage enterprise-wide risk through a number of risk controls and mitigants. Specific risk controls and mitigants include but are not limited to:

- Board risk oversight and routine Risk Committees
- Implementation and adoption of Company policies and standards
- Adoption of a group risk appetite statement
- Implementation of compliant Occupational Health and Safety processes and procedures at the Korean Metals Plant and the Toongi Pastoral Company
- Establishment of risk assessments and routines for the Dubbo Project
- Insuring business activities and operations in accordance with industry practice
- Implementing measures to minimise the impact of COVID to staff and the Company's business
- Engaging appropriate tax, finance, accounting and legal advisors.

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