



ALKANE
RESOURCES LTD

ACN 000 689 216

PROPOSAL TO DEMERGE

AUSTRALIAN STRATEGIC MATERIALS LTD 

ACN 168 368 401

DEMERGER BOOKLET

INCLUDING

Notice of Extraordinary General Meeting
Explanatory Statement
And Proxy Form

EXTRAORDINARY GENERAL MEETING

Due to the continuing COVID-19 situation, a virtual meeting will be held as well as a webcast of the proceedings on 16 July 2020 at 10:00 am (AWST)

THIS DOCUMENT IS IMPORTANT

If you do not understand this document or are in doubt as to how you should vote, you should consult your stockbroker, solicitor, accountant or other professional adviser.

CONTENTS

CLAUSE		PAGE
1.	SUMMARY OF DEMERGER PROPOSAL	9
2.	FREQUENTLY ASKED QUESTIONS	16
3.	ADVANTAGES, DISADVANTAGES AND RISKS OF THE DEMERGER.....	24
4.	OVERVIEW OF ALKANE AFTER THE DEMERGER	30
5.	FINANCIAL INFORMATION OF ALKANE	38
6.	OVERVIEW OF ASM	57
7.	FINANCIAL INFORMATION OF ASM	93
8.	DETAILS OF THE DEMERGER	104
9.	AUSTRALIAN TAXATION CONSEQUENCES FOR AUSTRALIAN TAX RESIDENT ALKANE SHAREHOLDERS AND ALKANE	116
10.	RISK FACTORS - INVESTING IN ASM	123
11.	ADDITIONAL INFORMATION	129
12.	DEFINITIONS AND GLOSSARY OF TECHNICAL TERMS	139

IMPORTANT INFORMATION

1. PURPOSE OF DOCUMENT

This document sets out information in relation to the Demerger, the effects of the Demerger and other information known to the Alkane Directors that is material to the decision of Alkane Shareholders in relation to voting on the Resolutions. This document includes the explanatory statement in relation to the Demerger, and forms part of the Notice of Meeting.

This document does not in any way constitute an offer to issue or sell securities or a solicitation of an offer to subscribe for or buy securities.

This document is not a prospectus or any other disclosure document under chapter 6D of the Corporations Act. This document does not include all information material to a decision to buy, sell or otherwise trade in ASM Shares.

2. ASX LISTING OF ASM

ASM intends to apply for admission of its ordinary shares to the ASX Official List. It is expected that ASM Shares will commence trading on a normal settlement basis on the ASX on or about 30 July, if the Demerger is approved by Alkane Shareholders and implemented as described in this document. It is the responsibility of Eligible Shareholders to determine their entitlement to ASM Shares before trading in ASM Shares.

3. RESPONSIBILITY STATEMENTS

- (i) Alkane has prepared and is responsible for the content of this Demerger Booklet (other than Annexures 2, 3 and 4 of this document).

- (ii) BDO Australia has prepared the Independent Expert's Report and takes responsibility for that report. A copy of that report is set out in Annexure 3 of this document.

- (iii) PricewaterhouseCoopers Securities Limited has prepared the Investigating Accountant's Report and takes responsibility for that report. A copy of that report is set out in Annexure 4 of this document.

4. NOTICE TO ALKANE SHAREHOLDERS OUTSIDE AUSTRALIA AND NEW ZEALAND

Alkane Shareholders who are Ineligible Foreign Shareholders will not receive ASM Shares under the Demerger. ASM Shares that would otherwise be transferred to these Alkane Shareholders under the Demerger will be transferred to the Sale Agent to be sold, with the net proceeds of such sale to be paid to Ineligible Foreign Shareholders. See Section 8.4 for more information.

5. FORWARD LOOKING STATEMENTS

Certain statements in this document relate to the future, including forward looking statements relating to Alkane and ASM's financial position and strategy. Forward looking statements can be identified by use of terminology such as 'intend', 'aim', 'project', 'anticipate', 'estimate', 'plan', 'believe', 'expect', 'may', 'should', 'will', 'continue' or other similar words. These statements discuss future expectations concerning the results of operations or financial condition, or provide other forward looking statements.

These forward looking statements are not guarantees or predictions of future

performance, and involve known and unknown risks, uncertainties and other factors, including the risk factors set out in Section 3.4, many of which are beyond the control of Alkane and ASM, and which may cause the actual results to differ materially from those expressed in the statements contained in this document. Shareholders are cautioned not to put undue reliance on forward looking statements.

Other than as required by law, none of Alkane or ASM, their officers or their advisers or any other person gives any representation, assurance or guarantee that the occurrence of the events expressed or implied in any forward looking statement in this document will actually occur, in part or in whole.

Additionally, statements of the intentions of the Alkane Board or the ASM Board reflect the present intentions of the Alkane Directors and ASM Directors respectively as at the date of this document and may be subject to change as the composition of the Alkane Board and ASM Board alters, or as circumstances require. Except as required by law, Alkane and ASM disclaim any obligation or undertaking to update or revise any forward looking statement in this Demerger Booklet.

6. PRESENTATION OF FINANCIAL INFORMATION

Financial information contained in this document has been prepared in accordance with the recognition and measurement principles prescribed in the Australian Accounting Standards (**AAS**) as issued by the Australian Accounting Standards Board (**AASB**), which is consistent with the International Financial Reporting Standards (**IFRS**) and interpretations as issued by the

International Accounting Standards Board (**IASB**).

7. COMPETENT PERSON'S STATEMENT

The information in this document that relates to mineral exploration, mineral resources and ore reserves is based on, and fairly represents, information and supporting documentation prepared by Mr D I Chalmers, FAusIMM, FAIG, a director of Alkane and ASM who has sufficient experience relevant to the style of mineralisation and type of deposit under consideration and to the activity which he is undertaking to qualify as a Competent Person as defined in the 2012 Edition of the Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves. Mr Chalmers has provided his prior written consent to the inclusion in this document of the matters based on his information in the form and context in which it appears. Mr Chalmers is a shareholder of Alkane and a participant in Alkane's short and long term incentive scheme. By virtue of his shareholding in Alkane, Mr Chalmers will receive ASM shares.

8. INVESTMENT DECISIONS

This document does not take into account the investment objectives, financial situation or particular needs of any Alkane Shareholder, ASM Shareholder or any other person. This document should not be relied upon as the sole basis for any investment decision in relation to ASM Shares or any other securities, and you should consult your financial, legal, tax or other professional adviser before making any such investment decision.

9. ESTIMATES

All references to, and derivations of, estimates are references to estimates and derivations by Alkane and ASM management, unless otherwise indicated. Management estimates and derivations are based on views at the date of this Demerger Booklet, and actual facts or outcomes may be materially different from those estimates.

10. INTERPRETATION

For the purpose of this Demerger Booklet, capitalised terms used in this Demerger Booklet have the meaning set out in Section 12, unless the context otherwise requires.

Figures, amounts, percentages, prices, estimates, calculation of values and fractions in this document are subject to the effect of rounding. Accordingly, the actual calculation of these figures may differ from the figures set out in this document.

11. PRIVACY AND PERSONAL INFORMATION

The collection of certain personal information is required or authorised by the Corporations Act in Australia.

Alkane, ASM and their respective share registries (**Registries**), may collect personal information in the process of implementing the Demerger. The personal information may include the names, addresses, other contact details and the details of the shareholdings of Alkane

Shareholders and ASM Shareholders, and the names of individuals appointed by Alkane Shareholders and ASM Shareholders as their respective proxies, corporate representatives or attorneys at relevant shareholder meetings.

Under the *Privacy Act 1988* (Cth), you may request access to your personal information that is held by, or on behalf of, Alkane or ASM. You can request access to your personal information or obtain further information about Alkane's or ASM's privacy practices by contacting Alkane, ASM or the Registries, details of which are set out elsewhere in this Demerger Booklet.

Alkane and ASM aim to ensure that the personal information it retains about you is accurate, complete and up-to-date. To assist with this, please contact Alkane, ASM or the Registries if any of the details you have provided change.

The main consequence of not collecting the personal information referred to above would be that Alkane may be hindered in, or prevented from, conducting the Extraordinary General Meeting and implementing the Demerger.

Shareholders who appoint an individual as their proxy, corporate representative or attorney to vote at the Extraordinary General Meeting, should inform such individuals of the matters outlined above.

12. DATE OF THIS DOCUMENT

This document is dated 17 June 2020.

Chairman's Letter



17 June 2020

Dear Alkane Shareholder

The Alkane Directors are pleased to present this document, which contains important information about the proposed separation and demerger of Alkane's critical materials business and assets (the **ASM Business**) from the remainder of Alkane's business.

If the proposed demerger is approved and implemented, your investment in Alkane will be divided into separate investments, both of which will be listed on the ASX, namely:

1. Australian Strategic Materials Ltd (**ASM**) is proposed to be listed on the ASX and operate the ASM Business; and
2. Alkane, which will continue to own and operate the remainder of Alkane's business being, principally, its Australian gold business.

As an Alkane Shareholder, you would retain your existing shareholding in Alkane and Eligible Shareholders would also receive one share in ASM for every five Alkane Shares held (rounded down to the nearest whole number).

Demerger rationale and impact

Following the Demerger, Alkane will be an Australian focussed gold company, with existing production from its Tomingley Operations and the opportunity to grow its production base through organic exploration and discovery (including the Boda discovery) and through further strategic acquisitions. Corporately, Alkane will continue to have an experienced board and management team, the remainder of its cash position (after it provided additional funding to ASM to bring ASM's

existing cash balance to \$20,000,000 on 1 April 2020) and no bank debt (other than equipment financing obligations).

ASM will be demerged with its cash reserves and no bank debt. All interests in the Dubbo Project and associated assets (including land and water rights), together with ASM's investment in South Korean metals technology company RMR Tech Corporation, will be 100% owned by ASM following the Demerger. ASM will have a focussed board and management team, a strategy to pursue the advancement of the "Clean Metal" metallisation technology, potential value-enhancing opportunities in relation to the Dubbo Project and will continue to be involved in off-take and financing discussions, including those already underway in relation to the Dubbo Project.

The Directors of Alkane are of the view that the Demerger has the potential to unlock shareholder value, streamlining Alkane's Australian gold business while creating a newly listed critical materials company, ASM. ASM will own the Dubbo Project (including the land and water rights required for production) together with its existing interest in RMR Tech Corporation and certain exclusive commercialisation rights associated with ASM.

After considering the advantages, disadvantages and risks of the proposed demerger, the Alkane Board believes that separating ASM from Alkane has the potential to create more shareholder value than if the ASM Business were to remain with Alkane, and believes the proposed demerger is in the best interests of Alkane Shareholders as a whole. The Alkane Board has commissioned an Independent Expert, BDO Australia, who has concluded that the position of Alkane Shareholders if the Demerger is approved is more advantageous than the position if the Demerger is not approved and as such is in the best interest of Alkane Shareholders.

Extraordinary General Meeting

For the proposed demerger to be able to proceed, Alkane Shareholder approval is required for the capital reduction needed to implement the demerger. As a result of the potential health risks from the Coronavirus (COVID-19) pandemic and in line with the Australian Government's restrictions on travel and social gatherings, it is not currently advisable to host shareholders and members of the public in person at the Extraordinary General Meeting (EGM). The Company will therefore be holding a virtual only meeting via a live webcast of proceedings. The Extraordinary General Meeting is to be held on **16 July 2020 at 10:00am (AWST)**.

The EGM will be held through an online webcast powered by "Lumi", where Shareholders will be able to watch, listen, submit written questions and vote online. Instructions on how to join the meeting and vote on the resolutions through the Lumi webcast are set out in the Online Meeting Guide, which is enclosed with the Notice of EGM provided in Annexure A of the Demerger Booklet and can also be found on the Company's website at www.alkane.com.au/demerger.

Provision of Extraordinary Meeting materials

In accordance with the Australian Government's temporary modifications provided under the Corporations (Coronavirus Economic Response) Determination (No. 1) 2020, the Notice of Extraordinary General Meeting, the accompanying explanatory statement (the Demerger Booklet) and Proxy Form are being made available to shareholders electronically.

All Alkane Shareholders will be able to access the Notice of Extraordinary General Meeting, the Demerger Booklet and all annexures (including the Proxy Form) online at: www.alkane.com.au/demerger. Alkane have also provided the meeting materials on the Company's ASX announcements page and are therefore available through the ASX Market Announcements Platform by inserting Alkane's ASX code (ALK) into the search function on <https://www.asx.com.au/asx/statistics/announcements>.

Any Alkane Shareholders that have nominated an email address and have elected to receive electronic communications from the Company, will receive an email to their nominated account with a link to an electronic copy of the Notice of Extraordinary General Meeting, Demerger Booklet and all annexures (including the Proxy Forms).

If you are unable to access the relevant meeting materials online, please contact the EGM help line on +61 8 9227 5677 between 9:00am and 5:00pm AWST Monday to Friday.

Participation at the EGM

Alkane Shareholders who wish to participate in the EGM online may do so:

1. Online at <https://web.lumiagm.com/350099625>; or
2. Using the Lumi AGM App.

In order to access the Lumi online platform, Alkane Shareholders should use the Meeting ID 350099625. Your username is your SRN/HIN and your password is the postcode registered to your holding if you are an Australian shareholder. Overseas shareholders should refer to the Online Meeting Guide for their password details. Further instructions on how to participate in the EGM are set out in the Online Meeting Guide, enclosed in the Notice of Extraordinary General Meeting and can also be found on the Company's website at www.alkane.com.au/demerger.

Voting on the resolutions

Your vote is important. You may vote virtually by either direct voting online during the meeting or by appointing a proxy, attorney or representative at the general meeting. Further information on how to participate and vote virtually is set out below and in the Online Meeting Guide provided in the Notice of Meeting and at www.alkane.com.au/demerger.

The Chairman will open the poll shortly after the EGM commences and you will be able to vote at any time during the EGM and for 10 minutes afterwards. If you have lodged a direct vote and then vote online again during the EGM, your first direct vote lodged will be cancelled.

Voting on the resolutions at the Meeting is important and the Alkane Board encourages all Alkane Shareholders to either vote at the Meeting via the online platform, or nominate a proxy by providing the Proxy Form according to the instructions provided on the Proxy Form. Proxy Forms can be lodged online at www.advancedshare.com.au/investor-login or sent by mail to the Company's Share Registry, Advanced Share Registry Services, so that it is received by 10:00am (AWST) on 14 July 2020. We encourage you to read this Demerger Booklet in its entirety and to make your own decision on the merits of the demerger proposal. Your Board considers the Demerger to be in the best interests of Alkane Shareholders as a whole and, accordingly, unanimously recommends that you vote in favour

of the resolutions set out in the notice of meeting included in this Demerger Booklet. Each of your Directors intends to vote all Alkane Shares that he owns or controls in favour of the resolutions.

Next steps

If you have any questions about the Demerger, please contact the Alkane Shareholder Information Line on 08 9227 5677.

Yours sincerely

Ian Jeffrey Gandel
Chairman



INDICATIVE TIMETABLE

If the conditions to the Demerger are satisfied, the Demerger is expected to take place in accordance with the following timetable:

Event	Indicative Date
Extraordinary General Meeting to consider approving Capital Reduction and Demerger	16 July 2020
Demerger Effective Date	17 July 2020
If the Demerger is approved and the necessary conditions are satisfied; last day of trading in Alkane Shares on a "cum" basis	20 July 2020
Trading of Alkane Shares on an "ex" basis commences	21 July 2020
Record Date for Demerger	22 July 2020
In Specie Distribution of ASM Shares	29 July 2020
Anticipated commencement of normal trading in ASM Shares	30 July 2020

All dates and times are indicative only and, among other things, are subject to change. The Indicative Timetable is subject to change as notified by Alkane to, or as required by, ASX from time to time.

1. SUMMARY OF DEMERGER PROPOSAL

1.1 Background

In late 2019 Alkane announced that it was contemplating the separation of its critical materials business held in ASM into a new listed entity by means of a Demerger, subject to shareholder approval. The Alkane Board believes that the separation of this business and the establishment of its own dedicated board and management team has the potential to unlock value for existing Alkane Shareholders.

The purpose of this document is to:

- outline the background to, and rationale for, the Demerger;
- outline the advantages, disadvantages and risks associated with the Demerger;
- explain the steps required to effect the Demerger;
- provide an overview of Alkane and ASM following the Demerger; and
- outline other factors relevant to the Demerger.

1.2 Rationale for Demerger

Alkane has existing gold mining and processing facilities at its Tomingley Operations as well as material gold and gold-copper exploration projects and investments in junior Australian gold companies. The gold division has strong stated growth aspirations with existing organic and inorganic potential to grow future gold production.

Alkane's critical materials business, held through ASM, is centred around the Dubbo Project, a multi-commodity development project that has been significantly progressed but requires off-take and funding in order to commence construction. Alkane has also invested in associated technology in relation to the Dubbo Project and potential downstream product activities that complement the Dubbo Project.

Alkane directors are of the opinion that the introduction of dedicated management teams to implement the agreed strategy for each of these businesses makes sense for Alkane Shareholders. This, together with significant feedback from many investors that they have interest in investing in one of the Alkane divisions but not the other, have led the Alkane Board to recommend that the businesses will be best progressed through the separation of the businesses into two separate listed entities. Eligible Shareholders will retain exposure to both businesses through the transaction.

1.3 Key advantages of the Demerger

Key advantages of the Demerger include:

- (a) Eligible Shareholders have the flexibility either to maintain their existing exposure to both the ASM Business and Alkane's gold operations, or to focus on one or other of Alkane and ASM;
- (b) each of Alkane and ASM may improve its financing flexibility; and
- (c) each of the Alkane Board and the ASM Board will be able to focus on, and prioritise, the development of the respective businesses.

Further detail is provided in Section 3.2.

1.4 **Key disadvantages and risks of the Demerger**

Key disadvantages and risks of the Demerger include:

- (a) increased costs for the ASM Business;
- (b) Ineligible Foreign Shareholders will be unable to maintain their existing exposure to the ASM Business; and
- (c) potential reduction in liquidity of Alkane Shares and ASM Shares.

Further detail is provided in Section 3.3.

1.5 **If the Demerger does not proceed**

If the Demerger does not proceed:

- ASM will continue to operate within the Alkane Group;
- Eligible Shareholders will not receive ASM Shares; and
- the advantages of the Demerger described in Sections 1.3 and 3.2 may not be realised and the disadvantages and risks of the Demerger described in Sections 1.4 and 3.3 may not arise (except for the incurrence of certain costs, as described in Section 3.3).

If the Demerger does not proceed, Alkane Directors and management may consider alternatives to the Demerger for the ASM Business.

1.6 **How the Demerger will be implemented**

Alkane Shareholders will retain their Alkane Shares and, if the Demerger Resolution is approved and other conditions to the Demerger are satisfied or waived, Eligible Shareholders will be entitled to receive one ASM Share for every five Alkane Shares held at the Demerger Record Date (rounded down to the nearest whole number).

Eligible Shareholders will not need to take any action or pay any cash to receive ASM Shares.

Ineligible Foreign Shareholders will not receive ASM Shares under the Demerger. ASM Shares that would otherwise be transferred to these Alkane Shareholders under the Demerger will

be transferred to the Sale Agent to be sold, with the net proceeds of such sale to be paid to Ineligible Foreign Shareholders. See Section 8.4 for more information. Ineligible Foreign Shareholders will not need to take any action to receive the net proceeds of sale of the ASM Shares to which they would otherwise have been entitled.

1.7 Overview of Alkane after the Demerger

(a) Summary

Following the Demerger, Alkane will be a gold production and exploration company deriving revenue from its existing Tomingley Operations. The Tomingley Operations consists of a 1.0mtpa processing facility which is treating underground ore mined from the Wyoming One underground mine.

Alkane made several exploration discoveries on adjacent, 100%-owned exploration permits south of the Tomingley Operations in 2018. An initial 50,000m of infill drilling was announced in the March quarter of 2019 and subsequently expanded to 60,000m in the June quarter of 2019. An initial inferred resource over the Roswell discovery of 445,000oz was announced in January 2020 and an initial inferred resource over the San Antonio discovery of 453,000oz was announced in April 2020. These discoveries are anticipated to deliver additional gold ore which, once permitted, will be processed at the Tomingley Operations.

Alkane holds other tenements in New South Wales which it considers to be prospective for new gold and base metals discoveries. Alkane is also a material shareholder in two junior gold companies listed on the ASX, both with development projects in Western Australia.

(b) Selected pro forma financial information of Alkane excluding ASM

Selected pro forma financial information of Alkane excluding ASM is set out in Section 5 of this Demerger Booklet.

(c) Strategy

Alkane's stated strategy is to grow shareholder value by increasing production at its Tomingley Gold Operations by pursuing organic growth by way of exploration and development across its extensive tenement holding in New South Wales and through continued strategic acquisitions.

Alkane's medium term goal is to become a multi-mine Australian gold producer. This strategy is underpinned by its Tomingley Operations and includes the gold discoveries made south of the Tomingley Operations in 2018 where resource definition drilling and development planning continues in 2020. In addition to the Tomingley Operations, Alkane will have exploration assets (including the Boda discovery) as well as investments in junior Australian gold exploration companies. Alkane continues to actively consider strategic gold acquisition transactions that have the potential to meet Alkane's objectives and grow shareholder value.

Alkane will have a commodity focus on gold (but incorporating base metals such as copper where they geologically co-exist) and a geographical focus on Australia.

(d) Governance

Alkane's governance will remain unchanged following the Demerger.

(e) Dividends and capital management

Historically, Alkane has not paid any dividends. While Alkane is currently in a period of significant exploration and development expenditure, there is no short-term intention to declare dividends to shareholders from profits or otherwise. Nevertheless, Alkane's dividend policy will continue to be considered in the future as circumstances change.

1.8 Overview of ASM

(a) Key assets

In addition to the cash transferred to the new entity as part of the Demerger, ASM's main assets will include the following:

- 100% interest in the Dubbo Project, which includes certain associated land and water rights (and Toongi Pastoral Company);
- ownership and/or exclusive rights to technology in relation to the Dubbo Project (which has potential application beyond the Dubbo Project, particularly in relation to hafnium separation from zirconium); and
- ASM's existing minority investment in RMR Tech Corporation (**RMR Tech**) and agreed exclusive global commercialisation rights to use the "Clean Metal" metallisation technology.

(b) Selected pro forma historical financial information on ASM

ASM pro forma historical financial information is set out in Section 7 of this Demerger Booklet.

(c) Strategy

The strategy of ASM is to create value for ASM Shareholders through advancing an integrated business that includes the Dubbo Project and related technology that results in the production of critical material oxides and metals. Together with Korean joint venture partners, through its investment in RMR Tech, ASM is currently commissioning a "Clean Metal" metallisation pilot plant, with commencement of operations expected in Q3 of 2020.

ASM is progressing testwork and engineering focused improvements that integrate "Clean Metal" metallisation into the business strategy. The commissioning of a commercial metallisation pilot plant is nearing completion and the initial focus of

producing zirconium, neodymium, praseodymium, niobium and titanium metal. This strategy incorporates the use of a 1 Mtpa flotation plant to improve the ore feed grade and a 0.5 Mtpa solvent extraction plant to process the higher-grade feed that is expected to deliver a lower capital cost and improved financial returns to the Dubbo Project. The results from the recoveries of the flotation work and the initial metallisation pilot plant commissioning will be delivered by Q3 of 2020.

ASM continues to progress financing, off-take and strategic partner initiatives with various parties. In March 2020, Alkane announced that Export Finance Australia (**EFA**) (Australia's Export Credit Agency) had confirmed its interest in participating in the financing consortium for the development of the Dubbo Project, subject to the finalisation of normal due diligence, acceptable financing structure and the Dubbo Project meeting the EFA's eligibility and credit requirements. ASM continues to liaise closely with the EFA and other Australian government departments in relation to financing and other support.

(d) Governance

On 10 February 2020, Alkane announced the appointment of David Woodall as Managing Director of ASM. Following the Demerger, Mr Woodall will remain as Managing Director of ASM.

The ASM Board will comprise the existing Alkane Board, with the exception of Anthony Lethlean who will remain with Alkane as a non-executive director, and will include David Woodall as Managing Director.

(e) Dividends and capital management

The ASM dividend policy will be determined by the ASM Board at its discretion, having regard to the status of ASM's operations and balance sheet and forward looking strategy. However, it is not anticipated that ASM will be in a position to pay any dividends in the near or medium term.

1.9 Risk factors

Alkane Shareholders should carefully consider the risk factors relating to the Demerger, Alkane and ASM as set out in Section 3.4 of this document along with all other information set out in this document. If any, or a combination, of these risks actually occur, the market price for Alkane Shares and/or ASM Shares may decline.

1.10 Taxation

A guide to the general tax consequences by the Demerger for Alkane Shareholders who are tax resident in Australia is set out in Section 9.

Alkane Shareholders should read Section 9 of this document. If they are in any doubt as to their tax position, they should contact their professional adviser immediately.

1.11 Eligibility of Alkane Shareholders

All Alkane Shareholders whose addresses are shown in the Alkane Share Register on the Demerger Record Date as being in Australia or New Zealand will receive ASM Shares (**Eligible Shareholders**) under the Demerger.

Alkane Shareholders with registered addresses outside of Australia and New Zealand will not be eligible to receive ASM Shares (**Ineligible Foreign Shareholders**). Those ASM Shares to which Ineligible Foreign Shareholders would otherwise be entitled will be transferred to the Sale Agent and sold on the ASX, with the net proceeds remitted to them. For further information, see Section 8.4.

1.12 Shareholder meeting

Annexure 1 of this document is a notice convening an Extraordinary General Meeting of Alkane Shareholders. As a result of the potential health risks from the Coronavirus (COVID-19) pandemic and Government restrictions on travel and social gatherings, it is not currently advisable to host shareholders and members of the public in person at the EGM. The Company will therefore be holding a virtual meeting and will also webcast the proceedings. The Extraordinary General Meeting is to be held on 16 July 2020 at 10:00am (AWST). Further detail on the Extraordinary General Meeting is provided in Annexure 1.

For the Demerger to proceed, the Demerger Resolution must be approved by an ordinary resolution of Alkane Shareholders.

A second Resolution, the Early Vesting Resolution, is also to be proposed at the Extraordinary General Meeting in connection with the Demerger. Information on this Resolution is set out in Section 4.7. The Alkane Directors also recommend that Alkane Shareholders vote in favour of this Resolution (with Mr Chalmers and Mr Earner abstaining due to their interest in the Resolution).

1.13 Trading in ASM Shares

If the Demerger is approved by Alkane Shareholders at the Extraordinary General Meeting, ASM is admitted to quotation by the ASX and the Demerger proceeds in accordance with the proposed timetable, Alkane Shares are expected to cease trading with an entitlement to ASM Shares from 20 July 2020 on the ASX.

It is expected that ASM Shares will then commence trading on a normal settlement basis on the ASX on 30 July 2020

1.14 Independent Expert's opinion

Alkane has engaged the Independent Expert to prepare a report on whether the position of Alkane Shareholders if the Demerger is approved is more advantageous than the position if the Demerger is not approved and therefore, whether the Demerger is in the best interests of Alkane Shareholders. The provision of such a report is customary for Australian demergers

and the report is intended to assist Alkane Shareholders in making an informed voting decision on the Demerger Resolution. The Independent Expert is BDO Australia.

The Independent Expert has concluded that the position of Alkane Shareholders if the Demerger is approved is more advantageous than the position if the Demerger is not approved and as such is in the best interest of Alkane Shareholders.

A copy of the full version of the Independent Expert's Report is set out in Annexure 3.

1.15 **Board recommendation**

The Alkane Board has carefully considered the potential advantages and disadvantages identified by the Independent Expert and undertaken its own assessment of the Demerger. The Alkane Board considers the Demerger to be in the best interests of Alkane Shareholders as a whole and, accordingly, unanimously recommends that Alkane Shareholders vote in favour of the Resolutions. Each of the Alkane Directors intend to vote any Alkane Shares that they own or control in favour of the Resolutions.

1.16 **What Alkane Shareholders need to do**

The Alkane Board encourages Alkane Shareholders to vote by:

- attending the virtual Extraordinary General Meeting and voting online;
- appointing an attorney, or in the case of corporate shareholders, a corporate representative, to attend online and vote on their behalf; or
- appointing a proxy to vote on their behalf.

A Proxy Form accompanies the Notice of Extraordinary General Meeting. Alkane Shareholders are encouraged to read the instructions set out in the Proxy Form, and further details on how to vote on the Resolutions are set out in the Notice of Extraordinary General Meeting set out in Annexure 1 of this document.

2. FREQUENTLY ASKED QUESTIONS

Question	Answer
The Demerger	
<p><i>What is the Demerger?</i></p>	<p>If the Demerger is implemented, it will result in the formation of an independent listed company, ASM, which will own all of Alkane's critical materials assets including the Dubbo Project. ASM will apply to be admitted to the official list of the ASX, and for ASM Shares to be admitted to quotation under the code "ASM".</p> <p>Alkane Shareholders will retain their Alkane Shares and, if the Demerger proceeds, Eligible Shareholders will be entitled to receive one ASM Share for every five Alkane Shares held at the Demerger Record Date (rounded down to the nearest whole number). Eligible Shareholders will not need to take any action or pay any cash to receive ASM Shares.</p> <p>Ineligible Foreign Shareholders will not receive ASM Shares under the Demerger. ASM Shares that would otherwise be transferred to these Alkane Shareholders under the Demerger will be transferred to the Sale Agent to be sold, with the net proceeds of such sale to be paid to Ineligible Foreign Shareholders. Ineligible Foreign Shareholders will not need to take any action to receive the net proceeds of sale of the ASM Shares to which they would otherwise have been entitled.</p>
<p><i>Why has the Demerger been proposed by the Alkane Board?</i></p>	<p>The Alkane Board has proposed the Demerger after feedback from Alkane Shareholders and potential shareholders. The Alkane Board considers that the Demerger will potentially increase shareholder value for Alkane Shareholders.</p>
<p><i>What are the key advantages of the Demerger?</i></p>	<p>The key advantages of the Demerger are discussed in detail in Sections 1.3 and 3.2.</p>

Question	Answer
<p><i>What are the key disadvantages and risks of the Demerger?</i></p>	<p>The key disadvantages and risks of the Demerger are discussed in detail in Sections 1.4 and 3.3.</p>
<p><i>How does the Board recommend I vote?</i></p>	<p>The Alkane Board recommends that you vote in favour of the Demerger Resolution to be considered at the Extraordinary General Meeting.</p> <p>Each Alkane Director intends to vote any Alkane Shares that he owns or controls in favour of the Demerger Resolution.</p>
<p><i>What is the Independent Expert's opinion on the Demerger?</i></p>	<p>The Independent Expert has concluded that the position of Alkane Shareholders if the Demerger is approved is more advantageous than the position if the Demerger is not approved and as such is in the best interest of Alkane Shareholders.</p> <p>The Independent Expert's Report is set out in Annexure 3.</p>
<p><i>What are the key steps and conditions to implement the Demerger?</i></p>	<p>The key remaining steps to implement the Demerger are:</p> <ul style="list-style-type: none"> • approval of the Demerger Resolution by Alkane Shareholders by ordinary resolution at the Extraordinary General Meeting; • approval of admission of ASM to the Official List of ASX and official quotation of ASM Shares by ASX, including ASX granting ASM a waiver in respect of ASX Listing Rule 10.14 and confirmations in respect of the application of ASX Listing Rules 1.1 (condition 3), 10.1 and Chapter 11; • satisfaction or waiver of all other conditions to the Demerger; and • in specie distribution and transfer of ASM Shares in satisfaction of the Distribution Amount.
<p><i>What happens if the Demerger does not proceed?</i></p>	<p>If the Demerger does not proceed:</p>

Question	Answer
	<ul style="list-style-type: none"> • ASM will continue to operate within the Alkane Group; • Eligible Shareholders will not receive ASM Shares; and • the advantages of the Demerger described in Sections 1.3 and 3.2 may not be realised and the disadvantages and risks of the Demerger described in Sections 1.4 and 3.3 may not arise (except for the incurrence of certain costs as described in Section 3.3). <p>If the Demerger does not proceed, Alkane Directors and management may consider alternatives to the Demerger for the ASM Business.</p>
<p><i>Which Alkane Shareholders are eligible to participate in the Demerger?</i></p>	<p>Alkane Shareholders whose registered address at the Demerger Record Date is in Australia or New Zealand are Eligible Shareholders and will receive ASM Shares. Alkane Shareholders with registered addresses outside of Australia and New Zealand will be Ineligible Foreign Shareholders and will not receive ASM Shares and should refer to Section 8.4 for further information.</p>
<p><i>What will Alkane Shareholders receive if the Demerger proceeds?</i></p>	<p>Eligible Shareholders will receive one ASM Share for every five Alkane Shares they hold at the applicable Demerger Record Date. See Section 1.6 for further information.</p> <p>Ineligible Foreign Shareholders will not be eligible to receive ASM Shares. ASM Shares that would otherwise be transferred to these Alkane Shareholders under the Demerger will be transferred to the Sale Agent to be sold, with the net proceeds of such sale to be paid to Ineligible Foreign Shareholders. See Section 8.4 for further information.</p>
<p><i>Can I choose to receive cash instead of ASM Shares?</i></p>	<p>No, under the Demerger you may not elect to receive cash instead of ASM Shares.</p> <p>If you are an Ineligible Foreign Shareholder, however, ASM Shares that would otherwise be</p>

Question	Answer
	transferred to you under the Demerger will be transferred to the Sale Agent to be sold with the ASM Shares of all other Ineligible Foreign Shareholders. The net proceeds of such sales will be paid to Ineligible Foreign Shareholders.
<i>Can I choose to keep or sell the ASM Shares I receive under the Demerger?</i>	The ASM Shares you receive under the Demerger are expected to be quoted on the ASX and, generally, you should be able to trade them in the usual way if you do not wish to keep them.
Alkane post-Demerger	
<i>What is the impact of the Demerger on my Alkane shareholding?</i>	The number of Alkane Shares you hold will not change as a result of the Demerger.
<i>What will be Alkane's strategy after the Demerger?</i>	<p>The strategy of Alkane will be to create shareholder value by increasing production at its Tomingley Operations and growing the gold business through exploration, development and strategic acquisition.</p> <p>This is the existing strategy for Alkane's gold division.</p>
<i>Who will be on the Alkane Board after the Demerger?</i>	The Demerger will not affect the composition of the Alkane Board.
<i>Will there be changes to Alkane's senior management as a result of the Demerger?</i>	<p>No – other than employees who are solely focussed on ASM who will transition to the demerged company, the senior management of Alkane will be unchanged.</p> <p>On 10 February 2020, Alkane announced the appointment of David Woodall as Managing Director of ASM. Following the Demerger, Mr Woodall will remain as Managing Director of ASM and cease to be part of the Alkane management team.</p>
<i>What will be the impact of the Demerger on Alkane's dividends?</i>	Alkane has not paid dividends previously. While Alkane is currently in a period of significant exploration and development expenditure, there is no short-term intention to declare dividends to shareholders from profits or otherwise.

Question	Answer
	Nevertheless, Alkane's dividend policy will continue to be considered in the future as circumstances change.
<i>What will be the Alkane share price after the Demerger?</i>	There is no certainty as to the price of Alkane Shares after the Demerger.
ASM	
<i>What is ASM?</i>	ASM is currently a wholly-owned subsidiary of Alkane focused on the development of a vertically integrated business to produce critical material oxides and metals (including the Dubbo Project).
<i>Where will ASM be listed?</i>	<p>ASM will apply for admission to the Official List of ASX and official quotation of ASM Shares, including applying to ASX for a waiver in respect of ASX Listing Rule 10.14 and confirmations in respect of the application of ASX Listing Rules 1.1 (condition 3), 10.1 and Chapter 11. The Demerger will not proceed unless admission to the Official List of ASX, official quotation of ASM Shares and the relevant waiver and confirmations are granted.</p> <p>It is expected that ASM Shares would trade under the ASX code "ASM".</p>
<i>What will be the ASM share price?</i>	There is no certainty as to the price of ASM Shares after the Demerger.
<i>What will ASM's strategic priorities be after the Demerger?</i>	ASM's strategic priorities are set out in Section 6.6. The ASM Board intends to focus on these strategic priorities following the Demerger however the future strategy of ASM will ultimately be a matter for the ASM Board and senior management to develop over time and is subject to change.
<i>What will be ASM's dividend policy?</i>	The ASM dividend policy will be determined by the ASM Board at its discretion, having regard to the status of ASM's operations and balance sheet and forward looking strategy. However, it is not

Question	Answer
	<p>anticipated that ASM will be in a position to pay any dividends in the near or medium term.</p>
<p><i>What will be ASM's capital structure?</i></p>	<p>Eligible Shareholders will receive one ASM Share for every five Alkane Shares held.</p>
<p><i>Who will be on the ASM Board after the Demerger?</i></p>	<p>As from the Demerger Effective Date, the ASM Board will comprise all the existing Alkane Directors other than Anthony Lethlean, and will also include David Woodall as ASM's Managing Director.</p>
<p><i>What are the risks of holding ASM Shares?</i></p>	<p>ASM will be subject to a range of risks in respect of its activities and interests which may adversely affect the future operating or financial performance, prospects, investment returns or value of ASM. Relevantly, the Dubbo Project has not yet been fully funded, nor is it in production. Many of these risks are risks to which the assets that form the ASM Business are already exposed, while others arise out of, or increase, as a result of the Demerger.</p> <p>These risks are summarised in Section 3.4. Alkane Shareholders should review these risks carefully before deciding how to vote in relation to the Demerger Resolution.</p>
<p><i>What will be ASM's relationship with Alkane after the Demerger?</i></p>	<p>Subject to the successful implementation of the Demerger, Alkane will not hold any shares in ASM.</p> <p>Certain contractual arrangements between Alkane and ASM Group Members, including an intercompany services agreement, are in place or will be in place at the Demerger Implementation Date.</p> <p>Alkane and ASM have also executed the Demerger Deed which is intended to govern the conduct of each company with respect to the Demerger. A summary of the Demerger Deed is included at Section 8.6.</p>

Question	Answer
Extraordinary General Meeting	
<i>Who can vote at the Extraordinary General Meeting?</i>	All Alkane Shareholders who are registered on the Alkane Share Register at 5:00pm (AWST) on 14 July 2020 are entitled to vote on the Resolutions.
<i>What is the voting threshold for the Demerger?</i>	For the Demerger to proceed, the Demerger Resolution must be approved as an ordinary resolution of Alkane Shareholders.
<i>When and where is the Extraordinary General Meeting?</i>	The meeting of Alkane Shareholders will be held online and begin at 10:00 am (AWST) on 16 July 2020.
<i>How will the Extraordinary General Meeting be held?</i>	As a result of the potential health risks from the COVID-19 pandemic and restrictions on gatherings, the Company will be holding a virtual meeting. Further details on the Extraordinary General Meeting, including how to attend and how to vote are provided in Annexure 1.
<i>What are the Resolutions to be proposed at the Extraordinary General Meeting?</i>	Alkane Shareholders are being asked to consider and vote on: 1. a resolution to approve a reduction of capital to effect the Demerger (the Demerger Resolution); and 2. a resolution to approve the proposed treatment of certain Alkane Performance Rights upon implementation of the Demerger (the Early Vesting Resolution).
<i>What is the Demerger Resolution?</i>	The Demerger Resolution is the ordinary resolution to be voted on by Alkane Shareholders to approve the Demerger, including the Capital Reduction required for the Demerger, as set out in the Notice of Extraordinary General Meeting in Annexure 1.
<i>What is the Early Vesting Resolution?</i>	The Early Vesting Resolution is the ordinary resolution to be voted on by Alkane Shareholders to approve the proposed treatment of certain

Question	Answer
	<p>Alkane Performance Rights. The Early Vesting Resolution is set out in the Notice of Extraordinary General Meeting in Annexure 1. An overview of the Early Vesting Resolution is discussed in detail in Section 4.7.</p>
<p><i>What if I do not vote at the Extraordinary General Meeting or if I vote against the Demerger Resolution?</i></p>	<p>If Alkane Shareholders who support the Demerger do not vote, there is a risk that the Demerger will not be approved. If you do not vote or vote against the Demerger Resolution but the Demerger Resolution is approved by the requisite majority of Alkane Shareholders, then, subject to the other conditions to the Demerger being satisfied or waived, the Demerger will be implemented and binding on all Alkane Shareholders including those who did not vote or voted against the Demerger Resolution.</p>
<p>Other</p>	
<p><i>What are the tax implications of the Demerger for Alkane Shareholders?</i></p>	<p>The tax implications of the Demerger will depend on how you hold your Alkane Shares and in which jurisdiction you are a resident for tax purposes.</p> <p>Section 9 sets out certain information on tax implications for Australian tax resident Alkane Shareholders.</p> <p>The information is expressed in general terms and does not constitute tax advice in respect of the particular circumstances of any Alkane Shareholders.</p> <p>It is recommended that you seek your own specific tax advice for your individual circumstances.</p>
<p><i>If you have further questions</i></p>	<p>If you have any further questions, it is recommended that you either:</p> <ul style="list-style-type: none"> i) contact your stockbroker, bank manager, solicitor, accountant and/or other independent professional adviser; or ii) call the Alkane Shareholder Information Line on 08 9227 5677.

3. ADVANTAGES, DISADVANTAGES AND RISKS OF THE DEMERGER

3.1 Background and alternatives considered

Alkane has operated with ASM as a wholly-owned subsidiary since it first acquired the Dubbo Project and began feasibility work on it in the 1990s. While significant geographical synergies exist (given that most of Alkane's tenement holdings are located in the same region of New South Wales) there is a recognition that from a commodity perspective, the Dubbo Project has distinct characteristics compared with the other exploration, development and operational activities which Alkane carries out. These include:

- a need to understand and develop relationships with potential global customers for the main products which the Dubbo Project would generate in production (as opposed to the gold business of Alkane which sells gold into a highly liquid and transparent market);
- greater focus on mineral processing and the need to develop a processing flow sheet specific to the unique ore characteristics of the Dubbo Project; and
- the need to develop international relationships for off-take and financing purposes, including potentially aligning the interests of a strategic partner through providing project or corporate equity interests as part of an agreed strategic partner transaction.

While these activities have been progressed, Alkane has recognised that there may be benefits for Alkane and Alkane Shareholders if ASM pursues its activities, including progressing the development of the Dubbo Project, as an independent separate listed entity. Alkane has previously generated shareholder value through spin-off and sale transactions, which include the IPO of BC Iron in 2006 and the sale of the McPhillamys Gold Project to Regis Resources in 2012.

Over Alkane's multi-decade existence as an ASX-listed company, it has made several significant gold discoveries in NSW which it has either developed itself or sold. These include Peak Hill, McPhillamys and Tomingley. Additionally, potentially significant projects were discovered in 2018 including the Tomingley corridor discoveries (San Antonio, Roswell and El Paso) and then, in 2019, the Boda discovery (the Northern Molong Porphyry Project).

Alkane has formed the view that, although there is geographical proximity between the Tomingley Operations, the new discoveries and the Dubbo Project, the strategic rationale for holding projects with different commodity focuses is limited.

With the activities and strategic goals of both business units clarified, over a period of several months in 2019 the Alkane Board commenced active consideration of a potential separation of the businesses. This included the investigation of several transaction structure alternatives to the Demerger and potential divestment scenarios were also considered. However, these were not progressed for various reasons including the strong view of the Alkane Board at the time that the market value of Alkane was materially below the intrinsic value of its assets and

that continuing on a standalone path for both projects remained the best course of action for shareholders.

In Q3 of 2019, the Alkane Board approved management and advisers to undertake detailed legal and tax structuring due diligence and early engagement with key regulators to determine the feasibility of a demerger via an in specie distribution and listing of ASM. Structuring and consultation with regulators continued in Q4 of 2019 and Q1 of 2020 along with the internal preparation for a demerged ASM. Key areas of focus for the Alkane Board included ensuring that ASM had an experienced and focussed senior management team considered capable of progressing the Dubbo Project and ASM's investments in South Korea and ensuring that a business plan and associated budget was developed with a view to understanding and securing the working capital needs of the demerged entity to execute its short term and medium term business plans (but excluding development capital).

3.2 Advantages of the Demerger

(a) Eligible Shareholders will retain their existing exposure to ASM

Under the Demerger, Eligible Shareholders will receive ongoing exposure to the ASM, its assets and its business through a direct shareholding in ASM.

(b) Investor choice

Creating a separate listed entity will allow existing and prospective investors seeking exposure solely to Alkane's gold business to invest directly in that business without exposure to the critical materials business. Likewise, existing and prospective investors seeking exposure to the ASM critical materials business will be able to invest directly in ASM without having exposure to Alkane's gold business. These businesses have different funding requirements, different commodity exposures and risk factors and have projects that are at different phases in the development cycle. The establishment of simple and transparent separate businesses with specific commodity focus and strategies is considered likely to allow investors to better understand and manage these risks.

(c) Greater flexibility in financing

The Demerger will position each of Alkane and ASM to seek finance for its own operations and growth strategies in the future.

Alkane will be able to seek investment from financiers and investors including those with a specialist gold and precious metals focus who do not wish to have exposure to other metals, including both debt and equity investors, as well as be able to more effectively use its shares as consideration in potential mergers, takeovers and equity financing transactions.

The Alkane Directors believe that ASM will be in a position to more clearly articulate the merits of the ASM Business as a compelling critical materials business which could

prove more attractive than when integrated with gold production and exploration assets.

(d) Management focus

The separation of Alkane and ASM will allow each entity to better pursue the targeted strategies of its business. The Alkane senior management team will be able to focus on realising the value of the gold business through the execution of the strategy for that business as articulated in recent investor presentations and shareholder announcements. Similarly, ASM's senior management team will focus on the continuation of off-take and financing discussions in relation to the Dubbo Project and the feasibility and marketing work in relation to ASM's Korean "Clean Metal" metallisation investment with RMR Tech.

(e) Reduced operating costs for Alkane

If the Demerger proceeds, Alkane will not have to bear the ongoing costs of the Dubbo Project and other ASM assets. Cash generated by Alkane's gold business will not need to fund the costs of running the ASM Business and instead could be fully applied to growing the gold business, paying down future debt, or returning to shareholders via dividends.

(f) Valuation of Alkane

The Alkane Board considers that the Demerger will reduce the likelihood that Alkane will trade at a price below the intrinsic value of its assets. Investors have indicated to Alkane that they would value Alkane differently if it was not a diversified minerals company.

(g) Working Capital

ASM will emerge from the Demerger with approximately \$20,000,000 in cash and no bank debt. Alkane will hold the remainder of the Alkane Group's cash and have no interest bearing debt (other than equipment financing obligations for Alkane). Alkane will also benefit from the financial contribution of its 100% owned Tomingley Operations.

3.3 Disadvantages of the Demerger

(a) Increased costs

There will be additional costs relating to two separate listed entities. Each company will have to bear its own head office costs (e.g. board fees, listing fees, auditing fees, etc.).

There are also one-off transaction execution costs and costs associated with establishing ASM as a standalone company that is listed on the ASX.

ASM will no longer have the benefit of accessing cash flows associated with production from Alkane's projects which it can use to fund its activities and will need to seek out its own future funding sources without the backing of Alkane's gold assets and business.

(b) Liquidity of ASM Shares

The Alkane Board believes that, absent positive news flow or changes to the macroeconomic environment, there may be low liquidity of ASM Shares traded on the ASX compared with the level of liquidity of Alkane Shares. This may make it more difficult for shareholders to buy and sell shares in ASM than it currently is to trade Alkane Shares.

Some investors, particularly institutional investors, may not be attracted to holding ASM Shares, which will have reduced scale and liquidity compared to Alkane before the Demerger. This may trigger selling by some investors, potentially placing downward share price pressure in ASM.

(c) Diversification

Alkane will be less diversified in its commodity focus, having separated out its critical materials division into ASM.

(d) Disposal of Alkane Shares and ASM Shares

Alkane Shareholders and ASM Shareholders who dispose of their shares following the Demerger may incur brokerage and other transaction costs associated with the disposal of these shares.

Nevertheless, the Alkane Board believes that the initial and ongoing costs of the Demerger will be outweighed by the benefits (short term and long term) for Alkane Shareholders in having ASM as a separate company.

3.4 Risks relating to the Demerger

(a) Introduction

If the Demerger is implemented, Alkane Shareholders, who previously had an indirect interest in the ASM Business through their shareholding in Alkane, will have a direct interest in ASM and, accordingly, will be directly subject to a number of risks affecting ASM, the ASM Business, its operations and its financial condition.

Most of the risks currently faced by Alkane will continue to be faced by Alkane after the Demerger. Alkane Shareholders are already exposed to these risks through their shareholding in Alkane. However, Alkane's risk profile will change after implementation of the Demerger of the ASM business as Alkane's operations will be focussed on gold production and will be less diversified. Any Alkane Shareholders who

do not retain their ASM Shares will have a similar reduction in diversification and concentration of their exposure to gold.

(b) Demerger may not complete

Completion of the Demerger is subject to the passing of the Demerger Resolution by Alkane Shareholders at the Extraordinary General Meeting as well as the satisfaction or waiver of a number of other conditions precedent as described in Section 8.5. If Alkane Shareholders do not approve the Demerger Resolution or any of the other conditions precedent are not satisfied or waived, the Demerger will not proceed.

If the Demerger is delayed or does not proceed, Alkane Shareholders may not receive all of the strategic benefits that will result from the Demerger.

(c) Uncertainty around the share prices of Alkane and ASM

While the Alkane Directors believe that the Demerger is in the best interests of Alkane Shareholders, it is not possible to predict the market value of Alkane Shares or ASM Shares following the Demerger.

There can be no assurance that an active market will develop in ASM Shares after the Demerger, or that ASM Shares will trade on ASX at any particular price subsequent to ASM's listing. Following the Demerger some shareholders may adjust their holdings in Alkane or ASM. There is a risk that the combined market value of Alkane and ASM after the Demerger will be less than the market value of Alkane immediately before the Demerger, particularly while the shareholder base of each company evolves. Recent volatility in equity markets may heighten uncertainty regarding the future combined value of Alkane and ASM.

The share prices of Alkane and ASM may be affected by a range of factors, including market sentiment, commodity prices and foreign exchange rates.

(d) The Demerger may fail to realise anticipated benefits

Alkane or ASM may fail to realise any or all of the anticipated benefits of the Demerger, either in a timely manner or at all. Some of the potential benefits of the Demerger may not be achieved as a result of circumstances outside the control of Alkane or ASM.

(e) Potential delays or unexpected costs in establishing ASM as a standalone entity

ASM's businesses are currently supported by Alkane's corporate services infrastructure, including group accounting, treasury, taxation, superannuation, legal, insurance administration, information management, certain group purchasing services, general human resources and other services. As part of the Demerger implementation, ASM will replace these support services with internal capability or with third party contracts and arrangements appropriate for it as a standalone entity. There is a risk that the performance of these functions will be negatively affected during ASM's period of transition to being a standalone entity as systems and

processes are implemented. ASM may incur one-off costs to implement these processes and, although support will initially be provided by Alkane under a Intercompany Services Agreement (see Section 8.6(b) below), it may take some time to ensure that all processes are operating fully and efficiently. There is a risk that the establishment of these capabilities may take longer than expected or may involve greater costs than anticipated.

(f) Demerger taxation relief

Alkane has applied for a class ruling seeking confirmation from the Australian Commissioner of Taxation that the Demerger will qualify for demerger tax relief (as described in Section 9 of this Demerger Booklet). Alkane has received a draft class ruling from the Australian Commissioner of Taxation which is to the satisfaction of Alkane. It is not intended that the draft class ruling is relied upon as the Australian Commissioner of Taxation is not bound to this draft ruling, nor has it been formally approved by the Commissioner. Broadly, where demerger tax relief is available and Australian resident Alkane Shareholders, who hold their Alkane Shares on capital account, make the choice to apply such relief, they will not realise any capital gain or loss from the Demerger and the cost base in respect of their Alkane Shares will be allocated between their Alkane Shares and the ASM Shares. A further consequence is that the transfer of shares in ASM to Alkane Shareholders under the Demerger will not be regarded as an assessable dividend for Alkane Shareholders.

Alkane anticipates that the class ruling will confirm the above taxation treatment for Australian resident Alkane Shareholders who hold their Alkane Shares on capital account. However, if the Commissioner of Taxation concludes that demerger tax relief is not available or seeks to apply the anti-avoidance rules applicable to demergers, then Australian resident Alkane Shareholders may make a taxable capital gain on the demerger, and/or the transfer of ASM Shares to Alkane Shareholders may be taxable as an unfranked dividend in the hands of Alkane Shareholders.

Section 9 provides further information on the general income tax implications for Alkane Shareholders who are Australian resident individuals or companies, including information on the implications if the class ruling is not issued consistent with the above expectations.

This information is not applicable to all Alkane Shareholders, and in particular those Alkane Shareholders who are not residents of Australia for taxation purposes. This Demerger Booklet also does not take into account Alkane Shareholders' individual investment objectives, financial situation or needs. The information in this Demerger Booklet should not be relied upon as the sole basis for any investment decision. Alkane Shareholders should seek independent legal, financial, taxation and other professional advice before making any investment decision.

3.5 Risks specific to an investment in ASM

There are a number of risk factors specific to ASM and of a more general nature which may, either individually or in combination, affect the future operating and financial performance, or financial position of ASM or the value of ASM Shares.

Section 10 of this Demerger Booklet describes various risks and uncertainties which Alkane considers to be the most significant as at the date of this Demerger Booklet. The risks described in Section 10 should be read in conjunction with Sections 3.1, 3.2 and 3.3, which set out (among other things) the background to and rationale for, and the advantages and disadvantages of, the Demerger, and Section 3.4, which sets out the risks relating to the Demerger.

4. OVERVIEW OF ALKANE AFTER THE DEMERGER

4.1 Principal effect of the Demerger on Alkane

The principal impact of the Demerger will be to remove the activities relating to the businesses held by ASM, and its direct employees, from the Alkane Group. This, together with the cash held by ASM, will reduce the net assets of Alkane. Alkane Shareholders will no longer have exposure to the ASM Business through their Alkane Shares but Eligible Shareholders who do not subsequently dispose of their ASM Shares will instead have exposure to these businesses directly as both Alkane and ASM Shareholders.

This separation will be effected in accordance with certain principles as agreed between Alkane and ASM under the Demerger Deed (**Demerger Principle**). In particular, following the Demerger Implementation Date, Alkane and ASM intend, as a fundamental principle of the Demerger that, as between the Alkane Post-Demerger Group on the one hand and the ASM Group on the other:

- (a) the Alkane Post-Demerger Group will have the entire economic and commercial benefit of the businesses conducted by the Alkane Post-Demerger Group together with the entire economic and commercial risks and liabilities of those businesses but none of the economic and commercial benefit of the businesses conducted by the ASM Group nor any of the economic and commercial risks and liabilities of those businesses;
- (b) the ASM Group will have the entire economic and commercial benefit of the businesses conducted by the ASM Group together with the entire economic and commercial risks and liabilities of those businesses but none of the economic and commercial benefit of the businesses conducted by the Alkane Post-Demerger Group nor any of the economic and commercial risks and liabilities of those businesses;
- (c) if there are any assets with the Alkane Post-Demerger Group which were owned by, or solely or primarily used by, the ASM Group (and not used in the conduct or operations of the businesses conducted by the Alkane Post-Demerger Group) in the

12 months prior to the Demerger Implementation Date, that the ASM Group is entitled to the ownership and/or use of those assets; and

- (d) if there are any assets with the ASM Group which were owned by, or solely or primarily used by, the Alkane Post-Demerger Group (and not used in the conduct or operations of the businesses conducted by the ASM Group) in the 12 months prior to the Demerger Implementation Date, that the Alkane Post-Demerger Group is entitled to the ownership and/or use of those assets.

A summary of the Demerger Deed is included at Section 8.6 below.

4.2 Alkane Board structure following Demerger

The composition of the Alkane Board will not be altered because of the Demerger.

4.3 Impact of the Demerger on Alkane capital structure

As at the date of this Demerger Booklet, Alkane has 580,033,307 ordinary shares on issue. Assuming no Alkane Shares are issued prior to the Demerger Record Date other than Alkane Shares issued on the early vesting of the Alkane Performance Rights (if the Early Vesting Resolution is passed (see Section 4.7 below)), the number of ordinary shares on issue in Alkane will be 595,248,891, immediately following the Demerger, and Alkane will have a capital structure as follows:

Capital Structure	Pre-Demerger Number	Post-Demerger Number
Alkane Shares on issue:	580,033,307	595,248,891
Alkane Performance Rights:	22,329,762	3,173,638

4.4 Alkane post-Demerger strategy

Post-Demerger, the strategy for Alkane will be the continuation of the existing strategy for Alkane's gold business, that is to grow shareholder value by increasing production at its Tomingley Operations, pursuing organic growth through exploration and development and through strategic acquisition.

4.5 Assets and operation of Alkane post-Demerger

Following the Demerger, the principal assets and operations of Alkane will relate to Alkane's existing Australian gold business, including its only production asset at Tomingley.

Ore for the Tomingley Operations is currently sourced from an underground mine which was developed from the Wyoming One open pit – one of four open pits mined between 2014 and 2019 at Tomingley (now exhausted).

Exploration by Alkane on granted exploration permits to the south of the mining leases yielded discoveries at San Antonio, Roswell and El Paso in 2018. Further drilling of these discoveries was prioritised, which continued throughout 2019 and is continuing in 2020. Alkane announced in January 2020 that results from a resource definition drilling program

indicated an initial inferred resource at Roswell of 445,000 oz. It is anticipated that any mineable ore that is delineated from these discoveries will be treated at Alkane's Tomingley Operations once the permitting process has been completed and mining operations initiated.

Alkane retains exploration permits in New South Wales and has conducted exploration activities in the region over many years.

Alkane has also made investments in two ASX-listed gold companies. As at the date of this Demerger Booklet, Alkane owns 13.0% of Calidus Resources (ASX:CAI) and 15.51% of Genesis Minerals (ASX:GMD).

4.6 **Dividends and capital management**

To date Alkane has not paid dividends. While Alkane is currently in a period of significant exploration and development expenditure, there is no short-term intention to declare dividends to shareholders from profits or otherwise. Nevertheless, Alkane's dividend policy will continue to be considered in the future as circumstances change.

4.7 **Impact on Alkane Performance Rights of executives**

In connection with the Demerger, the Alkane Board proposes certain changes to the Long-term Incentives (**Alkane Performance Rights**) of the Alkane executives named in the table below. The executives have confirmed their agreement with the proposed changes.

Subject to shareholder approval of the Demerger and of the treatment proposed below, upon implementation of the Demerger it is proposed that:

- (a) all Alkane Performance Rights with a Dubbo Project (**DP**) performance condition will be cancelled with no consideration payable to the holders of those performance rights; and
- (b) all FY18 and FY19 Alkane Performance Rights with a Total Shareholder Returns (**TSR**) performance condition will vest in full, thereby entitling the holder to one Alkane Share for each such Alkane Performance Right exercised by him or her.

Given that Alkane will cease to have an interest in the Dubbo Project if the Demerger is implemented, the Alkane Board considers it appropriate to cancel the Alkane Performance Rights that have a DP performance condition, and to vest the FY18 and FY19 Alkane Performance Rights with a TSR performance condition in lieu.

No change is proposed for the FY20 Alkane Performance Rights with a TSR performance condition. These LTIs will remain on foot in accordance with and subject to their original performance conditions.

Further details with respect to the TSR and DP performance conditions have previously been provided in each of Alkane's FY17-FY19 Notice of Meetings. A summary of the relevant vesting conditions and performance hurdles for each tranche of performance rights is provided below.

- (a) The vesting conditions and performance hurdles for the TSR tranche across FY18-FY20 are as follows:

Final Share Price vs Starting Share Price	% of Tranche to Vest
Final Share Price < 3 year growth at 10% cumulative annual growth rate (CAGR) (i.e. Final Share Price < Starting Share Price x 133%)	0%
3 year growth at 10% CAGR ≤ Final Share Price < 3 year growth at 15% CAGR (i.e. Starting Share Price x 133% ≤ Final Share Price < 152%)	Pro-rata from 0% to 50%
Final Share Price = 3 year growth at 15% CAGR (ie, Final Share Price = 152%)	50%
3 year growth at 15% CAGR ≤ Final Share Price < 3 year growth at 30% CAGR (i.e. Starting Share Price x 133% ≤ Final Share Price < 220%)	Pro-rata from 50% to 100%
3 year growth at 15% CAGR ≤ Final Share Price (ie, Starting Share Price x 220% ≤ Final Price)	100%

- (b) The vesting conditions and performance hurdles for the DP Condition tranche across FY18-FY20 are as follows:

Milestone Target	% of Tranche to Vest
Financing obtained and development commenced by the DP by the end of the LTI period	33.33%
Commissioning of the DP commenced by the end of the LTI period	33.33%
Production of the DP at modelled rates of 65% capacity (which is the end of production year one target)	33.33%

The proposed treatment is summarised in the table below.

Year	Individual	Metric	Number of LTIs	Treatment
FY 2018				
	D. I. Chalmers	Tranche 1 (TSR) Tranche 2 (DP)	710,960 152,348	Vesting Cancelled
	N. Earner	Tranche 1 (TSR) Tranche 2 (DP)	5,965,251 1,278,268	Vesting Cancelled
	A. MacDonald	Tranche 1 (TSR) Tranche 2 (DP)	1,036,817 222,175	Vesting Cancelled
	M. Sutherland	Tranche 1 (TSR) Tranche 2 (DP)	350,703 75,150	Vesting Cancelled
	B. Ward	Tranche 1 (TSR) Tranche 2 (DP)	366,345 78,566	Vesting Cancelled

Year	Individual	Metric	Number of LTIs	Treatment
FY 2019				
	J. Carter	Tranche 1 (TSR) Tranche 2 (DP)	1,841,591 394,626	Vesting Cancelled
	D. I. Chalmers	Tranche 1 (TSR) Tranche 2 (DP)	305,785 65,525	Vesting Cancelled
	N. Earner	Tranche 1 (TSR) Tranche 2 (DP)	2,497,245 535,124	Vesting Cancelled
	A. MacDonald	Tranche 1 (TSR) Tranche 2 (DP)	976,601 209,271	Vesting Cancelled
	S. Parsons	Tranche 1 (TSR) Tranche 2 (DP)	488,300 104,635	Vesting Cancelled
	M. Sutherland	Tranche 1 (TSR) Tranche 2 (DP)	330,335 70,786	Vesting Cancelled
	B. Ward	Tranche 1 (TSR) Tranche 2 (DP)	345,351 74,003	Vesting Cancelled
FY 2020				
	J. Carter	Tranche 1 (TSR) Tranche 2 (DP)	604,146 129,460	Ongoing Cancelled
	D. I. Chalmers	Tranche 1 (TSR) Tranche 2 (DP)	198,624 42,562	Ongoing Cancelled
	N. Earner	Tranche 1 (TSR) Tranche 2 (DP)	1,622,252 347,625	Ongoing Cancelled
	S. Parsons	Tranche 1 (TSR) Tranche 2 (DP)	306,451 65,668	Ongoing Cancelled
	M. Sutherland	Tranche 1 (TSR) Tranche 2 (DP)	216,267 46,342	Ongoing Cancelled
	B. Ward	Tranche 1 (TSR) Tranche 2 (DP)	225,898 48,406	Ongoing Cancelled
	Total		22,329,762	
	Total Vested (subject to Alkane Shareholder Approval)		15,215,584	68.1%
	Total Cancelled		3,940,540	17.6%
	Total Ongoing		3,173,638	14.2%

Alkane Shareholders are being asked to vote on the Early Vesting Resolution to approve the above treatment. This approval is sought for all purposes including, in particular, for the

purposes of sections 200C and 200E of the Corporations Act and ASX Listing Rule 6.23. Relevantly, by virtue of:

- section 200C of the Corporations Act, Alkane is prohibited from giving any person who holds a managerial or executive office in Alkane a benefit in connection with the transfer of the whole or any part of the undertaking or property of Alkane, unless there is shareholder approval under section 200E. To the extent that a benefit is given to any of the above individuals by reason of the above treatment of Alkane Performance Rights in connection with the transfer of the ASM Shares under the Demerger, the Early Vesting Resolution (if passed) would approve the giving of it; and
- ASX Listing Rule 6.23, the above treatment of the Alkane Performance Rights requires the prior approval of shareholders, because the terms of the Alkane Performance Rights will be varied materially.

The implementation of the Demerger is not conditional on the approval of the Early Vesting Resolution.

Although the number of Alkane Performance Rights of the relevant individuals that may vest upon implementation of the Demerger is presently known (i.e. as set out in the table above), the value of the benefits that would be given to the above named individuals cannot be ascertained. Matters, events and circumstances that will or are likely to affect the calculation of the value of the performance rights on implementation of the Demerger are:

- the value of the Alkane Performance Rights of the relevant individual immediately before they vest as described above;
- the relevant individual continuing to be entitled to their Alkane Performance Rights;
- the number of Alkane Performance Rights that actually vest on implementation of the Demerger;
- the market price of Alkane Shares at the time of vesting of the Alkane Performance Rights; and
- the benefit from vesting FY18 and FY19 Alkane Performance Rights with a TSR performance condition will be offset by the cancellation of the Alkane Performance Rights with a DP performance condition and by the lack of adjustment to the FY20 Alkane Performance Rights with a TSR performance condition, and relevantly;
 - the benefit from early vesting of the FY18 and FY19 Alkane Performance Rights with a TSR performance condition is limited given that the current Alkane share price is significantly higher than the performance condition and the likelihood that the performance condition would have been met;
 - the detriment from cancelling Alkane Performance Rights with a DP performance condition is limited given the unlikelihood that the performance condition would have been met at least for the FY18 and FY19 Alkane Performance Rights; and

- the detriment from the lack of adjustment to the FY20 Alkane Performance Rights with a TSR performance condition arises as the Alkane share price hurdle has not been lowered to reflect that the post-Demerger Alkane share price will not include the value of the ASM business.

With respect to the Early Voting Resolution, the Alkane Board's intention is that holders of Alkane Performance Rights will not receive any material benefit, nor suffer any material detriment, post-Demerger compared to their position held pre-Demerger.

Voting exclusion statement for Early Vesting Resolution

None of the above individuals (or their associates) intend to vote on the Early Vesting Resolution (other than as proxy for a person entitled to vote, appointed by writing that specifies how the proxy is to vote on the resolution).

In accordance with the ASX Listing Rules, Alkane will disregard any votes cast in favour of the Early Vesting Resolution by or on behalf of any of the above named individuals or their associates.

The above voting exclusions will not apply in relation to a vote cast in favour of a person entitled to vote on the Early Vesting Resolution by:

- a person as proxy or attorney for a person who is entitled to vote on the resolution, in accordance with directions given to the proxy or attorney to vote on the resolution in that way; or
- the chair of the meeting as proxy or attorney for a person who is entitled to vote on the resolution, in accordance with a direction given to the chair to vote on the resolution as the chair decides; or
- a holder acting solely in a nominee, trustee, custodial or other fiduciary capacity on behalf of a beneficiary provided the following conditions are met:
 - the beneficiary provides written confirmation to the holder that the beneficiary is not excluded from voting, and is not an associate of a person excluded from voting, on the resolution; and
 - the holder votes on the resolution in accordance with directions given by the beneficiary to the holder to vote in that way.

In addition, in accordance with section 250BD of the Corporations Act, Alkane will disregard any votes cast on the resolution by members of the key management personnel of Alkane (which includes Alkane Directors), and their closely related parties, as proxy except where:

- the votes are cast on behalf of a person entitled to vote, in accordance with directions specifying the way the proxy is to vote on the Early Vesting Resolution; or

- the votes are cast by the chair of the Extraordinary General Meeting on behalf of a person entitled to vote and the appointment expressly authorises the chairman to exercise the proxy even though the Early Vesting Resolution is connected directly or indirectly with the remuneration of a member of the key management personnel of Alkane.

5. FINANCIAL INFORMATION OF ALKANE

5.1 Purpose

The financial information contained in this Section 5 has been prepared by Alkane in connection with the Demerger to assist Alkane Shareholders in understanding the potential effects of the Demerger on Alkane.

This section contains the following information:

- (a) the historical financial information of Alkane (hereafter the **Alkane Historical Financial Information**), comprising:
 - (i) the historical income statements for the years ended 30 June 2018 and 30 June 2019 and the half years ended 31 December 2018 and 31 December 2019;
 - (ii) the historical balance sheet as at 31 December 2019; and
 - (iii) the historical cash flow statements for the years ended 30 June 2018 and 30 June 2019 and the half years ended 31 December 2018 and 31 December 2019; and
- (b) the pro forma historical financial information of Alkane following the Demerger (hereafter the **Alkane (Post-Demerger) Pro Forma Historical Financial Information**), comprising:
 - (i) the pro forma historical income statements for the years ended 30 June 2018 and 30 June 2019 and the half years ended 31 December 2018 and 31 December 2019;
 - (ii) the pro forma historical balance sheet as at 31 December 2019; and
 - (iii) the pro forma historical cash flows statements for the years ended 30 June 2018 and 30 June 2019 and the half years ended 31 December 2018 and 31 December 2019.

The Alkane Historical Financial Information and the Alkane (Post-Demerger) Pro Forma Historical Financial Information together form the **Alkane Financial Information**.

The Alkane Financial Information presented in this Section 5 should be read in conjunction with the risk factors set out in Section 3.4 of this Demerger Booklet and other information in this Demerger Booklet. Investors should note that past results are not a guarantee of future performance.

All amounts disclosed in this section are presented in Australian dollars.

5.2 Basis of preparation and presentation of the Alkane Financial Information

(a) Overview

The Alkane Directors are responsible for the preparation and presentation of the Alkane Financial Information. The Alkane Financial Information included in this Demerger Booklet is intended to present potential investors with information to assist them in understanding the financial position of Alkane pre-Demerger and post-Demerger.

The Alkane Financial Information is presented in an abbreviated form and does not include all of the presentation, disclosures, statements and comparative information as required by the AAS applicable to general purpose financial reports prepared in accordance with the Corporations Act. The Investigating Accountant has prepared an Investigating Accountant's Report in respect of the Alkane historical balance sheet and Alkane (Post-Demerger) pro forma historical balance sheet, shown in Section 5.6 of this Demerger Booklet.

Figures, amounts, percentages, estimates and calculations are subject to the effect of rounding. Accordingly, totals in tables may not add due to rounding. The financial information in this section should be read in conjunction with the risk factors set out in Section 1.9 of this Demerger Booklet.

(b) Preparation of the Alkane Historical Financial Information

The Alkane Historical Financial Information has been derived from interim financial statements of Alkane for the half year ended 31 December 2018 and 31 December 2019 and the full year financial statements of Alkane for the financial years ended 30 June 2018 and 30 June 2019. The interim financial statements of Alkane were reviewed by PricewaterhouseCoopers in accordance with the Australian Auditing Standards. PricewaterhouseCoopers issued an unqualified review opinion on these interim financial statements. The full year financial statements of Alkane were audited by PricewaterhouseCoopers in accordance with the Australian Auditing Standards. PricewaterhouseCoopers issued an unqualified audit opinion on these full year financial statements. The financial statements are available from Alkane's website (www.alkane.com.au) or the ASX website (www.asx.com.au).

The Alkane Historical Financial Information has been prepared in accordance with the recognition and measurement principles prescribed in the AAS (including Australian Accounting Interpretations) adopted by the AASB, which comply with the recognition and measurement principles of the IASB and interpretations adopted by the IASB.

AAS are subject to amendments from time to time, and any such changes may impact the balance sheet of Alkane Post-Demerger. In addition, following the Demerger, Alkane may be impacted by accounting policies adopted which are different to existing policies, and differences in interpretations of AAS.

In preparing the Alkane Financial Information, the accounting policies of Alkane have been applied.

(c) Preparation of the Alkane (Post-Demerger) Pro Forma Historical Financial Information

The Alkane (Post-Demerger) Pro Forma Historical Financial Information has been prepared for illustrative purposes, to assist Alkane Shareholders to understand the impact of the Demerger and the financial performance, financial position and cash flows of Alkane post-Demerger. By its nature, pro forma historical financial information is illustrative only. Consequently, the Alkane (Post-Demerger) Pro Forma Historical Financial Information does not purport to reflect the actual or future financial performance or cash flows for the relevant period, nor does it reflect the actual financial position of Alkane Post-Demerger at the relevant time.

The Alkane (Post-Demerger) Pro Forma Historical Financial Information has been prepared in accordance with the AAS and has been prepared on a consistent basis to the accounting policies set out in Alkane's interim financial statements for the half year ended 31 December 2019.

The AAS are subject to amendments from time to time. During the historical periods presented, Alkane has adopted AASB 15 Revenue from Contracts with Customers effective from 1 January 2018 and AASB 16 Leases, effective from 1 January 2019. Alkane has assessed the impact of AASB 15 and AASB 16 on the periods prior to adoption and noted no material impact. As such, retrospective pro forma adjustments have not been reflected in the historical periods prior to adoption of these items.

The Alkane (Post-Demerger) Pro Forma Historical Financial Information includes pro forma adjustments to reflect the impact of certain transactions as if they occurred as at 31 December 2019 in the pro forma historical balance sheet and immediately prior to 1 July 2017 in the pro forma historical income statements and pro forma historical cash flows.

Pro forma adjustments have been made to the Alkane (Post-Demerger) Pro Forma Historical Financial Information:

- (i) for the accounting for the Demerger including one-off demerger costs;
- (ii) to derecognise deferred tax assets in Alkane post-Demerger;
- (iii) to recognise the cash received in January 2020 for the share rights issued to Abbotsleigh Pty Ltd, approved by the general meeting held 7 January 2020;
- (iv) to recognise the purchase of land as part of the Tomingley Operations project extension in January and April 2020;
- (v) to reflect that in May 2020, Tomingley Holdings (a subsidiary of Alkane) financed equipment already owned, with National Australia Bank for

\$6,115,000. The loan term is for a three year period with an interest rate of 4.3% per annum; and

- (vi) to recognise the early vesting of selected performance rights, as described in Section 4.7.

The Alkane (Post-Demerger) pro forma historical cash flow statements set out in Section 5.8 are presented as cash flows after net capital expenditure, finance costs and tax.

Alkane uses certain measures to manage and report on its businesses that are not recognised under AAS or IFRS. These measures are collectively referred to in this section as non-IFRS financial measures pursuant to Regulatory Guide 230 *Disclosing non-IFRS financial information* published by ASIC. Management uses these non-IFRS financial measures to evaluate the performance and profitability of the overall business, and they are commonly used performance measures by the investor community. The principal non-IFRS measures referred to in this section are as follows:

- (i) **EBIT** is the earnings of continuing operations before recognising:
 - (A) interest revenue, interest expense or financing costs; and
 - (B) income tax expense.
- (ii) **EBITDA** is earnings of continuing operations before recognising:
 - (A) depreciation and amortisation expense;
 - (B) interest revenue, interest expense or financing costs; and
 - (C) income tax expense.
- (iii) **NPAT** is the net profit after tax.
- (iv) **Net capital expenditure** represents capital and investment expenditure less proceeds from the sale of property, plant and equipment and intangibles.
- (v) **Net debt** represents total loans and borrowings and bank overdrafts, less cash and cash equivalents.
- (vi) **Net free cash flows** is net operating cash flows after net capital expenditure, finance costs and taxation.
- (vii) **Working capital** represents inventories, trade and other receivables and trade and other payables.

5.3 Alkane historical income statement

Set out below are Alkane's historical income statements for the financial years ended 30 June 2018, 30 June 2019 and the half years ended 31 December 2018 and 31 December 2019.

Table 5.3: Alkane historical income statements

	Half-year ended 31 December 2018	Half-year ended 31 December 2019	Year ended 30 June 2018	Year ended 30 June 2019
Revenue	52,352,327	34,097,863	129,973,610	93,994,872
Cost of sales	(34,818,780)	(17,897,287)	(89,322,834)	(60,911,631)
Gross Profit/(Loss)	17,533,547	16,200,576	40,650,776	33,083,241
Other income	1,758,472	844,053	1,547,992	1,855,783
Expenses				
Other expenses	(4,796,878)	(5,692,808)	(10,280,116)	(8,887,319)
Finance costs	(258,140)	(109,190)	(602,937)	(418,822)
Total expenses	(5,055,018)	(5,801,998)	(10,883,053)	(9,306,141)
Profit/(loss) before income tax	14,237,001	11,242,631	31,315,715	25,632,883
Income tax	(2,046,623)	(3,752,872)	(6,845,047)	(2,338,964)
Profit/(loss) after income tax	12,190,378	7,489,759	24,470,668	23,293,919
Other comprehensive loss	(260,030)	(1,602,012)	-	(628,893)
Total comprehensive income	11,930,348	5,887,747	24,470,668	22,665,026
Other financial information				
Profit/(loss) before income tax	14,237,001	11,242,631	31,315,715	25,632,883
Reported EBIT	13,765,397	10,830,565	30,743,558	24,570,838
Depreciation & Amortisation	6,057,167	1,467,551	38,282,269	7,327,428
Reported EBITDA	19,822,564	12,298,116	69,025,828	31,898,266

5.4 Management commentary on historical results

On 24 September 2018, the Alkane Board approved the commencement of underground mining at Tomingley Gold Operations and open cut mining subsequently finished in January 2019. During the transition from open cut mining to underground, low grade stockpiles were processed in the half-year ended 31 December 2019. The first underground stope material was processed in the half-year ended 31 December 2019 with grade and processing recovery performing as expected.

5.5 Alkane (Post-Demerger) pro forma historical income statements

Set out below are the Alkane (Post-Demerger) pro forma historical income statements for the years ended 30 June 2018 and 30 June 2019 and the half years ended 31 December 2018 and 31 December 2019.

Table 5.5: Alkane (Post-Demerger) pro forma historical income statements

Half-year ended 31 December 2019	Historical Alkane ¹	Removal of ASM ²	Alkane pro forma
Revenue	34,097,863	-	34,097,863
Cost of sales	(17,897,287)	-	(17,897,287)
Gross Profit/(Loss)	16,200,576	-	16,200,576
Other income	844,053	(733,283)	110,770
Expenses			
Other expenses	(5,692,808)	699,697	(4,993,111)
Finance costs	(109,190)	-	(109,190)
Total expenses	(5,801,998)	699,697	(5,102,301)
Profit/(loss) before income tax	11,242,631	(33,586)	11,209,045
Income tax	(3,752,872)	10,076	(3,742,796)
Profit/(loss) after income tax	7,489,759	(23,510)	7,466,249
Other comprehensive loss	(1,602,012)	-	(1,602,012)
Total comprehensive income	5,887,747	(23,510)	5,864,237
Other financial information			
Profit/(loss) before income tax	11,242,631	(33,586)	11,209,045
Reported EBIT	10,830,565	181,335	11,011,900
Depreciation & Amortisation	1,467,551	(38,590)	1,428,961
Reported EBITDA	12,298,116	142,744	12,440,860

1. Represents the Alkane position prior to the Demerger as derived from the interim financial report for Alkane.
2. Represents the deconsolidation of the ASM Group's historical income statement for the half year ended 31 December 2019. ASM has been operating on a standalone basis and therefore no additional operating costs will be transferred from Alkane to ASM on implementation of the Demerger. This column can be reconciled to ASM's historical income statements disclosed in Section 7.3 (with the exception of the intercompany finance costs which are eliminated in the Alkane group consolidated figures presented above).

Half-year ended 31 December 2018	Historical Alkane ¹	Removal of ASM ²	Alkane pro forma
Revenue	52,352,327	-	52,352,327
Cost of sales	(34,818,780)	-	(34,818,780)
Gross Profit/(Loss)	17,533,547	-	17,533,547
Other income	1,758,472	(818,367)	940,105
Expenses			
Other expenses	(4,796,878)	1,091,531	(3,705,347)
Finance costs	(258,140)	-	(258,140)
Total expenses	(5,055,018)	1,091,531	(3,963,487)
Profit/(loss) before income tax	14,237,001	273,164	14,510,165
Income tax	(2,046,623)	(82,436)	(2,129,059)
Profit/(loss) after income tax	12,190,378	190,728	12,381,106
Other comprehensive loss	(260,030)	-	(260,030)
Total comprehensive income	11,930,348	190,728	12,121,076
Other financial information			
Profit/(loss) before income tax	14,237,001	273,164	14,510,165
Reported EBIT	13,765,397	599,296	14,364,693
Depreciation & Amortisation	6,057,167	(20,685)	6,036,482
Reported EBITDA	19,822,564	578,611	20,401,175

1. Represents the Alkane position prior to the Demerger as derived from the interim financial report for Alkane.
2. Represents the deconsolidation of the ASM Group's historical income statement for the half year ended 31 December 2018. ASM has been operating on a standalone basis and therefore no additional operating costs will be transferred from Alkane to ASM on implementation of the Demerger. This column can be reconciled to ASM's historical income statements disclosed in Section 7.3 (with the exception of the intercompany finance costs which are eliminated in the Alkane group consolidated figures presented above).

Year ended 30 June 2019	Historical Alkane ¹	Removal of ASM ²	Alkane pro forma
Revenue	93,994,872	-	93,994,872
Cost of sales	(60,911,631)	-	(60,911,631)
Gross Profit/(Loss)	33,083,241	-	33,083,241
Other income	1,855,783	(1,763,484)	92,299
Expenses			
Other expenses	(8,887,319)	1,520,587	(7,366,732)
Finance costs	(418,822)	-	(418,822)
Total expenses	(9,306,141)	1,520,587	(7,785,554)
Profit/(loss) before income tax	25,632,883	(242,897)	25,389,986
Income tax	(2,338,964)	72,869	(2,266,095)
Profit/(loss) after income tax	23,293,919	(170,028)	23,123,891
Other comprehensive loss	(628,893)	-	(628,893)
Total comprehensive income	22,665,026	(170,028)	22,494,998
Other financial information			
Profit/(loss) before income tax	25,632,883	(242,897)	25,389,986
Reported EBIT	24,570,838	400,676	24,971,514
Depreciation & Amortisation	7,327,428	(72,219)	7,255,209
Reported EBITDA	31,898,266	328,456	32,226,722

1. Represents the Alkane position prior to the Demerger as derived from the annual report for Alkane.
2. Represents the deconsolidation of the ASM Group's historical income statement for the half year ended 30 June 2019. ASM has been operating on a standalone basis and therefore no additional operating costs will be transferred from Alkane to ASM on implementation of the Demerger. This column can be reconciled to ASM's historical income statements disclosed in Section 7.3 (with the exception of the intercompany

finance costs which are eliminated in the Alkane group consolidated figures presented above).

Year ended 30 June 2018	Historical Alkane ¹	Removal of ASM ²	Alkane pro forma
Revenue	129,973,610	-	129,973,610
Cost of sales	(89,322,834)	-	(89,322,834)
Gross Profit/(Loss)	40,650,776	-	40,650,776
Other income	1,547,992	(2,026,475)	(478,483)
Expenses			
Other expenses	(10,280,116)	1,766,162	(8,513,954)
Finance costs	(602,937)	23,922	(579,015)
Total expenses	(10,883,053)	1,790,084	(9,092,969)
Profit/(loss) before income tax	31,315,715	(236,391)	31,079,324
Income tax	(6,845,047)	(74,831)	(6,919,878)
Profit/(loss) after income tax	24,470,668	(311,222)	24,159,446
Other comprehensive loss	-	-	-
Total comprehensive income	24,470,668	(311,222)	24,159,446
Other financial information			
Profit/(loss) before income tax	31,315,715	(236,391)	31,079,324
Reported EBIT	30,743,558	392,803	31,136,361
Depreciation & Amortisation	38,282,269	(40,372)	38,241,897
Reported EBITDA	69,025,828	352,431	69,378,258

1. Represents the Alkane position prior to the Demerger as derived from the annual report for Alkane.
2. Represents the deconsolidation of the ASM Group's historical income statement for the half year ended 30 June 2013. ASM has been operating on a standalone basis and therefore no additional operating costs will be transferred from Alkane to ASM on implementation of the Demerger. This column can be reconciled to ASM's historical income statements disclosed in Section 7.3 (with the exception of the intercompany finance costs which are eliminated in the Alkane group consolidated figures presented above).

5.6 Alkane historical balance sheet and Alkane pro forma historical balance sheet as at 31 December 2019

(a) Preparation of the Alkane pro forma historical balance sheet

The Alkane pro forma historical balance sheet as at 31 December 2019 set out below is provided for illustrative purposes only and is prepared on the assumption that the Demerger was implemented at 31 December 2019. If approved, the Demerger is expected to be implemented in July 2020. The Alkane Group comprises Alkane and each of its subsidiaries. The Alkane pro forma historical balance sheet does not illustrate the financial position that may be contained in future financial statements of Alkane following the Demerger.

In preparing the Alkane Pro Forma Historical Balance Sheet, no adjustments have been made for potential changes in cost or operating structure resulting from the Demerger or to reflect the trading of Alkane or ASM since 31 December 2019 or the fair value movements of financial assets post 31 December 2019, however adjustments have been made for capital restructures that will take place as a result of the Demerger.

Table 5.6A: Alkane historical balance sheet and Alkane pro forma historical balance sheet as at 31 December 2019

	Historical Balance Sheet	Pro Forma Adjustments				Alkane Resources prior to Demerger				Pro Forma Historical Balance Sheet
	Alkane Resources Group 31 December 2019	Rights issue ¹	Land acquisitions ²	Vesting of performance rights ³	Equipment financing ⁴					Estimated transaction costs ⁵
CURRENT ASSETS										
Cash and cash equivalents	78,420,356	4,731,250	(5,440,000)	-	6,115,000	83,826,606	(1,615,000)	(20,000,000)	-	62,211,606
Receivables	2,478,285	-	(160,000)	-	-	2,318,285	-	(22,287)	-	2,295,998
Inventory	5,588,763	-	-	-	-	5,588,763	-	(3,662)	-	5,585,101
Biological assets	37,402	-	-	-	-	37,402	-	(37,402)	-	-
Derivative financial instruments	-	-	-	-	-	-	-	-	-	-
Total current assets	86,524,806	4,731,250	(5,600,000)	-	6,115,000	91,771,056	(1,615,000)	(20,063,351)	-	70,092,705
NON-CURRENT ASSETS										
Exploration and evaluation	112,056,073	-	-	-	-	112,056,073	-	(89,541,515)	-	22,514,558
Property, plant & equipment	70,330,727	-	5,600,000	-	-	75,930,727	-	(27,519,685)	-	48,411,042
Derivative financial instruments	246,930	-	-	-	-	246,930	-	-	-	246,930
Biological assets	267,758	-	-	-	-	267,758	-	(267,758)	-	-
Investments*	15,072,982	-	-	-	-	15,072,982	-	(1,856,888)	-	13,216,094
Other financial assets	8,388,180	-	-	-	-	8,388,180	-	(20,000)	-	8,368,180
Total non-current assets	206,362,650	-	5,600,000	-	-	211,962,650	-	(119,205,846)	-	92,756,804
TOTAL ASSETS	292,887,456	4,731,250	-	-	6,115,000	303,733,706	(1,615,000)	(139,269,197)	-	162,849,509
CURRENT LIABILITIES										
Trade and other payables	7,855,482	-	-	-	-	7,855,482	-	(227,378)	-	7,628,104
External financing	-	-	-	-	2,118,000	2,118,000	-	-	-	2,118,000
Provisions	2,241,255	-	-	-	-	2,241,255	-	(11,882)	-	2,229,373
Total current liabilities	10,096,737	-	-	-	2,118,000	12,214,737	-	(239,260)	-	11,975,477
NON-CURRENT LIABILITIES										
Deferred tax liability	12,549,999	-	-	-	-	12,549,999	-	(26,003,391)	13,453,392	-
Provisions	14,259,270	-	-	-	-	14,259,270	-	(7,609)	-	14,251,661
Other non-current liabilities	131,793	-	-	-	3,997,000	4,128,793	-	-	-	4,128,793
Total non-current liabilities	26,941,062	-	-	-	3,997,000	30,938,062	-	(26,011,000)	13,453,392	18,380,454
TOTAL LIABILITIES	37,037,799	-	-	-	6,115,000	43,152,799	-	(26,250,260)	13,453,392	30,355,932
NET ASSETS/(LIABILITIES)	255,849,657	4,731,250	-	-	-	260,580,907	(1,615,000)	(113,018,937)	(13,453,392)	132,493,578
EQUITY										
Issued capital	254,370,684	4,731,250	-	2,415,932	-	261,517,866	-	(67,375,687)	-	194,142,179
Reserves	1,653,380	-	-	(1,748,824)	-	(95,444)	-	(45,624,314)	-	(45,719,758)
Accumulated losses	(174,407)	-	-	(667,108)	-	(841,515)	(1,615,000)	(18,936)	(13,453,392)	(15,928,843)
TOTAL EQUITY	255,849,657	4,731,250	-	-	-	260,580,907	(1,615,000)	(113,018,937)	(13,453,392)	132,493,578

* Investments represent shareholdings in Calidus Resources Ltd, Genesis Minerals Ltd and RMR Tech.

(b) Pro forma adjustments

The pro forma adjustments are as follows:

(1) Rights issue

In December 2019, Alkane undertook a rights issue which included the issue of 8,602,273 shares to Abbotsleigh Pty Ltd at a price of \$0.55 per share. The rights issue was required to be approved by Alkane Shareholders. The share issue was approved at a general meeting on 7 January 2020 and \$4,731,250 was received post 31 December 2019 from Abbotsleigh Pty Ltd for these shares.

(2) Land acquisitions

Reflects the purchase of land as part of the Tomingley Operations project extension.

(3) Vesting of Alkane Performance Rights

Reflects the accounting treatment for the early vesting of Alkane Performance Rights which is subject to shareholder approval (refer to Section 4.7 of this Demerger Booklet for further information).

(4) Equipment financing

In May 2020, Tomingley Holdings (a subsidiary of Alkane) financed equipment already owned, with National Australia Bank for \$6,115,000. The loan term is for a three year period with an interest rate of 4.3% per annum.

(5) Estimated transaction costs

Total estimated transaction costs for the Demerger amount to \$1,615,000. These costs will be expensed on a post-tax basis by Alkane for the financial year ending 30 June 2020.

(6) ASM Demerger

In accordance with the Notice of Extraordinary General Meeting, accounting entries arising from the Demerger and associated Capital Reduction will be implemented on the Demerger Implementation Date. The Capital Reduction and Demerger Dividend will be recognised as part of the implementation of the Demerger. The principal assets to be distributed in accordance with the Notice of Extraordinary General Meeting include the Dubbo Project. The pro forma adjustment for the Demerger is based on the ASM Pro Forma Balance Sheet as at 31 December 2019 as set out in Section 7.6 of this Demerger Booklet. The actual measurement of the distribution payable will be based on the fair value as at the Demerger Implementation Date. The fair value of the assets of ASM will be determined by reference to the VWAP of ASM Shares as traded on the

ASX (on an ordinary settlement basis) over the first five trading days after the ASX Listing. As described further in Section 6.6, in order to not prejudice Alkane's core gold business, Alkane has provided additional cash to ASM such that ASM's cash balance was \$20,000,000 on 1 April 2020 to provide funding for ASM's ongoing operations. ASM's cash balance at 31 December 2019 was \$17,311,735.

In accordance with the Demerger Deed and Restructure Deed, summarised in Section 8.6, all intercompany loans between Alkane and ASM will be capitalised and/or forgiven prior to implementation of the Demerger. As this restructure occurs prior to implementation of the Demerger, these intercompany transactions eliminate on Alkane group consolidation, and are therefore not shown in Table 5.6A. Further information on the Demerger accounting is included in Section 5.6(c).

(7) Derecognition of deferred tax asset

Following the Demerger, a deferred tax asset of \$13,453,392 will not qualify for recognition as the San Antonio and Roswell projects have not yet been sufficiently drilled to the extent that they can be incorporated into mine planning and cash flow forecasts for the Tomingley Gold Operations. On the basis that further drilling and subsequent incorporation of these projects into mine planning takes place, Alkane may have the opportunity to utilise some or all of the de-recognised Deferred Tax Assets.

(c) Impact of the Demerger on accounting

Accounting for demerger transactions is addressed in the AASB Interpretation 17 '*Distributions of Non-cash Assets to Owners*'. That interpretation requires that any obligations for distributions made by a company to its shareholders should be recognised once declared and, where required, approved by the shareholders, and measured under AASB 137 *Provisions, Contingent Liabilities and Contingent Assets* and that all liabilities for the distribution payable must be measured in accordance with AASB 137 at the fair value of the assets to be distributed.

On the Demerger Record Date, Alkane will recognise a distribution payable based on the fair value of ASM Shares. At that time, the difference between the historic cost of the net assets distributed and the estimated fair value of the distribution payable will be recognised in Alkane's income statement. The fair value of the assets of ASM will be determined by reference to the VWAP of ASM Shares as traded on the ASX (on an ordinary settlement basis) over the first five trading days after the ASX Listing. This liability will be settled through the transfer of the ASM Shares. For the purposes of preparing the pro forma information, it has been assumed the fair value is equal to book value and therefore no profit or loss has been recognised in Alkane's financial statements.

The distribution payable will be charged to equity. In this regard, the fair value of the distribution payable will be allocated between share capital (Capital Reduction) and demerger reserve (Demerger Dividend). The value of the Capital Reduction will be determined by reference to the tax allocation which is expected to be supported by an ATO ruling. The amount recorded in the demerger reserve, the Demerger Dividend, will be the difference between the distribution payable (Distribution Amount) and the Capital Reduction Amount.

For illustrative purposes only, a range of fair values and the implied Dividend and profit/(loss) on demerger amounts are set out in Table below. These figures are neither a prediction nor a forecast of ASM's share price post-Demerger and the VWAP of ASM Shares over the first five trading days may vary substantially from the range set out in the Table below.

Table 5.6CA: Implied dividend.

Demerger Dividend				
ASM fair value per the share price (A\$)	0.66	0.76	0.95	1.09
Implied market capitalisation of ASM (A\$m)	78	90	113	130
Capital reduction (A\$m)	47	54	67	78
Implied dividend (A\$m)	31	36	46	52
# of ASM Shares (m)	119	119	119	119

Table 5.6CB: Alkane profit / (loss) on Demerger.

Profit / (loss) on demerger				
ASM fair value per the share price (A\$)	0.66	0.76	0.95	1.09
Implied market capitalisation of ASM (A\$m)	78	90	113	130
ASM net assets	113	113	113	113
(Loss) / profit on demerger	(35)	(23)	0	17

As noted above, for the purposes of preparing the pro forma information, it has been assumed the fair value of ASM is equal to ASM's net asset value and therefore no profit or loss has been recognised in Alkane's financial statements which is based on A\$0.95 per share.

5.7 Alkane historical cash flows statements

Set out below are Alkane's historical cash flow statements for the years ended 30 June 2018 and 30 June 2019 and half years ended 31 December 2018 and 31 December 2019.

Table 5.7: Alkane historical cash flow statements

	Half-year ended 31 December 2018	Half-year ended 31 December 2019	Year ended 30 June 2018	Year ended 30 June 2019
EBITDA ¹	19,822,564	12,298,116	69,025,828	31,898,266
Other items ²	1,140,106	1,392,517	2,655,104	2,686,511
Changes in working capital	(1,594,577)	(4,864,450)	(17,005,583)	1,718,678
Operating cash flows before capital expenditure, financing costs and tax	19,368,092	8,826,183	54,675,348	36,303,456
Capital expenditure	(18,214,764)	(35,568,416)	(24,509,598)	(38,636,064)
Operating cash flows after net capital expenditure, before financing costs and tax	1,153,328	(26,742,233)	30,165,750	(2,332,608)
Financing costs	(51,712)	(37,471)	(143,273)	(88,495)
Net free cash flows³	1,101,616	(26,779,704)	30,022,477	(2,421,103)
Net proceeds/(repayments) of borrowings	595,292	597,082	11,788	-
Net proceeds from share issue	-	35,021,174	-	-
Net increase/(decrease) in cash and cash equivalents	1,696,908	8,838,552	30,034,265	(2,421,103)
Cash and cash equivalents at beginning of period	72,002,905	69,581,804	41,968,640	72,002,905
Cash and cash equivalents at end of period	73,699,813	78,420,356	72,002,905	69,581,802

1. Represents historical EBITDA from continuing operations, excluding other items listed below.
2. Includes the following non-cash items:

	Half-year ended 31 December 2018	Half-year ended 31 December 2019	Year ended 30 June 2018	Year ended 30 June 2019
Share based payments	408,522	627,472	1,086,710	864,965
Lapse of put options	-	316,636	-	-
Interest received (cash)	668,385	537,129	1,175,094	1,476,969
Profit/(loss) equipment	10,690	(1,318)	2,442	6,611
Exploration provision or write off	-	-	187,558	581,673
Change in value of biological assets	52,508	(87,402)	203,300	(243,706)
Total other items	1,140,106	1,392,517	2,655,104	2,686,511

3. There are no cash income tax outflows.

5.8 Alkane (Post-Demerger) pro forma historical cash flow statements

Set out below are the Alkane (Post-Demerger) pro forma cash flows for the years ended 30 June 2018 and 30 June 2019 and half years ended 31 December 2018 and 31 December 2019.

The cash flows presented below are net cash flows from operating activities and investing activities.

Table 5.8A: Alkane (Post-Demerger) pro forma cash flow statements

	Half-year ended 31 December 2018	Half-year ended 31 December 2019	Year ended 30 June 2018	Year ended 30 June 2019
EBITDA ¹	20,401,175	12,440,860	69,378,258	32,226,722
Other items ²	761,465	1,264,998	1,791,810	1,842,510
Changes in working capital	(1,712,194)	(5,412,683)	(17,455,530)	2,379,361
Operating cash flows before capital expenditure, financing costs and tax	19,450,445	8,293,175	53,714,538	36,448,593
Capital expenditure	(13,090,338)	(32,331,225)	(14,950,000)	(32,424,910)
Operating cash flows after net capital expenditure, before financing costs and tax	6,360,107	(24,038,050)	38,764,538	4,023,683
Financing costs	(32,609)	(37,145)	(100,797)	(68,354)
Net free cash flows³	6,327,498	(24,075,195)	38,663,741	3,955,329

1. Represents pro forma historical EBITDA from continuing operations, excluding other items listed below.
2. Includes the following non-cash items:

	Half-year ended 31 December 2018	Half-year ended 31 December 2019	Year ended 30 June 2018	Year ended 30 June 2019
Share based payments	408,522	627,472	1,086,710	864,965
Lapse of put options	-	316,636	-	-
Interest received (cash)	342,253	322,208	521,979	833,396
Profit/(loss) equipment	10,690	(1,318)	2,442	6,611
Exploration provision or write off	-	-	180,679	137,538
Total other items	761,465	1,264,998	1,791,810	1,842,510

3. There are no cash income tax outflows.

Reconciliation of Alkane historical cash flow statements to Alkane (Post-demerger) pro forma historical cash flow statements

Reconciliations of the Alkane historical cash flows to the Alkane (Post-Demerger) pro forma historical cash flows for the years end 30 June 2018 and 30 June 2019 and half years ended 31 December 2018 and 31 December 2019 are shown in the following tables.

Table 5.8B: Reconciliation of Alkane historical cash flows to Alkane (Post-Demerger) pro forma historical cash flows

	Half-year ended 31 December 2018	Half-year ended 31 December 2019	Year ended 30 June 2018	Year ended 30 June 2019
Historical operating cash flows after net capital expenditure, before financing costs and tax	1,153,328	(26,742,233)	30,165,750	(2,332,608)
ASM historical operating cash flows after net capital expenditure, before financing costs and tax ¹	5,206,779	2,704,184	8,598,789	6,356,293
Pro forma historical operating cash flows after net capital expenditure, before financing costs and tax²	6,360,107	(24,038,049)	38,764,539	4,023,685

1. Represents the ASM historical operating cash flows after capital expenditure, before financing costs and tax prior to the Demerger occurring, as derived from the financial information directly related to ASM from the accounting records of Alkane.

2. ASM has been operating separately from the remainder of the group, therefore there are no operating costs that will transfer from Alkane to ASM on implementation of the Demerger.

5.9 Critical accounting judgements, estimates and assumptions

The preparation of the financial information requires management to make judgements, estimates and assumptions that affect the reported amounts in the financial statements. Management also needs to exercise judgement in applying the group's accounting policies. 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 within the next financial year are discussed below.

(a) Carrying value of non-current assets

Non-current assets include capitalised exploration and evaluation expenditures and mine properties. The group has capitalised significant exploration and evaluation expenditure on the basis that, either;

- (i) such expenditure is expected to be recouped through future successful development (or alternatively sale) of the areas of interest concerned; or
- (ii) it is not yet possible to assess whether it will be recouped and activities are planned to enable that determination.

The future recoverability of capitalised exploration and evaluation expenditure is dependent on a number of factors, including whether the group decides to exploit the related lease itself, or, if not, whether it successfully recovers the related exploration asset through sale. The future recoverability of mine properties is dependent on the generation of sufficient future cash flows from operations (or alternately sale). Factors that could impact the future recoverability of exploration and evaluation and mine properties include the level of reserves and resources, future technological changes, costs of drilling and production, production rates, future legal changes (including changes to environmental restoration obligations) and changes to commodity prices and exchange rates.

Estimates of recoverable quantities of resources and reserves also include assumptions requiring significant judgement as detailed in the resource and reserve statements.

An impairment review is undertaken to determine whether any indicators of impairment are present.

(b) Depreciation of property, plant and equipment

Non-current assets include property, plant and equipment. The Alkane Group reviews the useful lives of depreciable asset at each reporting date or when there is a change in the pattern in which the asset's future economic benefits are expected to be consumed, based on the expected utilisation of the assets. Depreciation and amortisation are calculated using the units of production method based on ounces of gold produced.

(c) Rehabilitation and mine closure provisions

These provisions represent the discounted value of the present obligation to restore, dismantle and rehabilitate certain items of property, plant and equipment and to rehabilitate exploration and mining leases. The discounted value reflects a combination of management's assessment of the nature and extent of the work required, the future cost of performing the work required, the timing of cash flows and the discount rate. Changes to one or more of these assumptions is likely to result in a change to the carrying value of the provision and the related asset or a change to profit and loss in accordance with the Alkane Group's accounting policy.

(d) Net realisable value and classification of inventory

The Alkane Group's assessment of the net realisable value and classification of its inventory requires the use of estimates, including the estimation of the relevant future commodity or product price, future processing costs and the likely timing of sale.

(e) Share-based payments

The Alkane Group measures the cost of equity settled transactions with employees by reference to the fair value of the equity instruments at the date at which they are granted. The fair value for share appreciation rights and performance rights component tranche 1 is determined with the assistance of an external valuer. The number of performance rights issued under the long term incentive plan tranche 2 component are adjusted to reflect management's assessment of the probability of meeting the targets and service condition. The accounting estimates and assumptions relating to equity settled share based payments would have no impact on the carrying amounts of assets and liabilities within the next annual reporting period but may impact expenses and equity.

(f) Provision for restructuring costs

Restructuring costs are payable when employment is terminated before the normal retirement date, or whenever an employee accepts voluntary redundancy in exchange for these benefits. The group recognises restructuring costs when it is demonstrably committed to either:

- (i) terminating the employment of current employees according to a detailed formal plan without possibility of withdrawal; or

- (ii) providing termination benefits as a result of an offer made to encourage voluntary redundancy.

Significant judgement is required in determining the probability of retention of employees.

5.10 **Material changes in financial position since most recent balance date**

Alkane held a general meeting on 7 January 2020 where Alkane Shareholders were asked to vote on the issue of 8,602,273 shares at an issue price of \$0.55 per share to Abbotsleigh Pty Ltd. The share issue was approved and funds were received in January 2020.

The Alkane Group has also completed the purchase of land in the Tomingley region. The total purchase price of all land acquired was \$5,600,000 and settlement took place across January 2020 and April 2020. As at the date of this Demerger Booklet, further attempts to purchase land in both the Tomingley and Boda project areas are being undertaken. The Alkane Group is in the process of negotiating and contracting for additional purchases of land to support the Tomingley Operations and its expansion. It is forecast that these associated land purchases will have a total collective purchase price of up to \$10,000,000.

In May 2020, Tomingley Holdings (a subsidiary of Alkane) financed equipment already owned, with National Australia Bank for \$6,115,000. The loan term is for a three year period with an interest rate of 4.3% per annum.

No other matter or circumstance has arisen since 31 December 2019 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.

In early 2020, with the outbreak of the novel Coronavirus Disease ("COVID-19" or "the coronavirus"), unprecedented measures were put in place by both Australian and international governments to contain the coronavirus. Management continues to consider the potential implications of the coronavirus, which may include delays to the construction and commissioning of the "Clean Metal" metallisation pilot plant, and other optimisation work in progress that is focussed on further improving the economics of the Dubbo Project. However, the Alkane Board believes that certain statements by governments with respect to potential supply chain diversification (to avoid industrial exposure to potential similar events in the future) may provide opportunities for the Dubbo Project as a result of COVID-19. Management will continue to monitor government statements and operations but, as at the date of this Demerger Booklet, does not consider that COVID-19 has had a material detrimental impact on Alkane or its prospects.

5.11 **Contingencies and commitments**

The Alkane Group has contingent liabilities estimated up to the value of \$3,670,000 for the potential acquisition of several parcels of land surrounding the Dubbo Project as at 31 December 2019. The amount to be paid is based upon a multiple of market values and is subject to variation. The landholders have the right to require ASM to acquire their property

as provided for in the development consent conditions for the Dubbo Project or under agreement with ASM. These put options are summarised in Section 6.14(e) of this Demerger Booklet.

The Alkane Group has commitments estimated up to the value of \$2,980,000 for the acquisition of several parcels of land surrounding the Dubbo Project as at 31 December 2019.

The Alkane Group has entered into an option agreement with landholders over a section of the Tomingley corridor as part of potential project life extension for the Tomingley Operations. The Alkane Group has contingent liabilities estimated up to the value of \$2,750,000 for the potential acquisition of land as at 31 December 2019. The amount to be paid is based upon a multiple of market values and is subject to variation.

The Alkane Group has entered into forward gold sales contracts which are not accounted for on the balance sheet. A contingent liability of \$8,199,000 existed at 31 December 2019 in the event the contracts are not settled by the physical delivery of gold.

The forward gold sales contracts disclosed below did not meet the criteria of financial instruments for accounting purposes on the basis that they met the normal purchase/sale exemption because physical gold would be delivered into the contract. Accordingly, the contracts were accounted for as sale contracts with revenue recognised in the period in which the gold commitment was met. The balances in the table below relate to the value of the contracts to be delivered into by transfer of physical gold.

	Gold for physical delivery	Contracted gold sale price	Value of committed sales
	Ounces	per ounce (\$)	\$'000
31 December 2019			
Fixed forward contracts			
Within one year	19,760	1,840	36,373
One to five years	5,000	1,890	9,450

5.12 Dividend policy

Historically, Alkane has not paid any dividends. While Alkane is currently in a period of significant exploration and development expenditure, there is no short-term intention to declare dividends to shareholders from profits or otherwise. Nevertheless, Alkane's dividend policy will continue to be considered in the future as circumstances change.

6. OVERVIEW OF ASM

6.1 Background

The ASM business will comprise the critical materials business and associated assets currently held by Alkane.

6.2 ASM capital structure

Immediately following the Demerger ASM will have a capital structure as follows:

ASM Shares on issue:	119,049,778 fully paid ordinary shares
ASM Performance Rights:	3,000,000

6.3 Corporate structure of ASM Group

Below is a corporate structure diagram of ASM and its subsidiaries as proposed immediately after the Demerger is implemented:



6.4 ASM operations and assets

ASM currently owns the following major operations and assets:

(a) Dubbo Project

Wholly owned by ASM, the Dubbo Project is a large in-ground polymetallic resource of zirconium, hafnium, niobium, tantalum, yttrium and rare earth elements. It is located near the village of Toongi, 25 kilometres south of Dubbo in central western New South Wales, Australia.

Geology

The Toongi deposit is centred on a trachyte outcrop that forms one of several alkaline volcanic and intrusive bodies of Jurassic age in the region (formed approximately 205 to 190 million years ago). The elliptical-shaped body has approximate dimensions of 850m east–west by 550m north–south. The deposit forms a low irregular topographic rise and has a depth extent of 115m below surface.

The ore body is dominantly a massive, fine-grained microporphyratic trachyte comprising more than 80% feldspar, albite and aegirine in roughly equal amounts. The remainder of the rock is made up of opaque minerals. Extensive mineralogical studies indicate that the ore minerals contained in the deposit are extremely fine-grained, being less than 100µm in size (and generally less than 10µm), and uniformly distributed throughout the rock mass. The bulk of the ore metals are hosted in complex Na–Ca–Zr–Hf–HREE silicate phases (eudialyte like). The dominant Nb (and Ta) mineral is close to NaNbO₃ (natroniobite) in composition. Separately bastnasite hosts the light rare earth metals.

The deposit contains elevated levels of the metals zirconium (Zr), hafnium (Hf), niobium (Nb), tantalum (Ta), yttrium (Y) and rare earth elements (REEs) – lanthanum (La), cerium (Ce), praseodymium (Pr), neodymium (Nd), samarium (Sm), europium (Eu), gadolinium (Gd), terbium (Tb), dysprosium (Dy), holmium (Ho), erbium (Er), thulium (Tm), ytterbium (Yb) and lutetium (Lu). The ore body also contains uranium and thorium and is classified as a weakly radioactive ore.

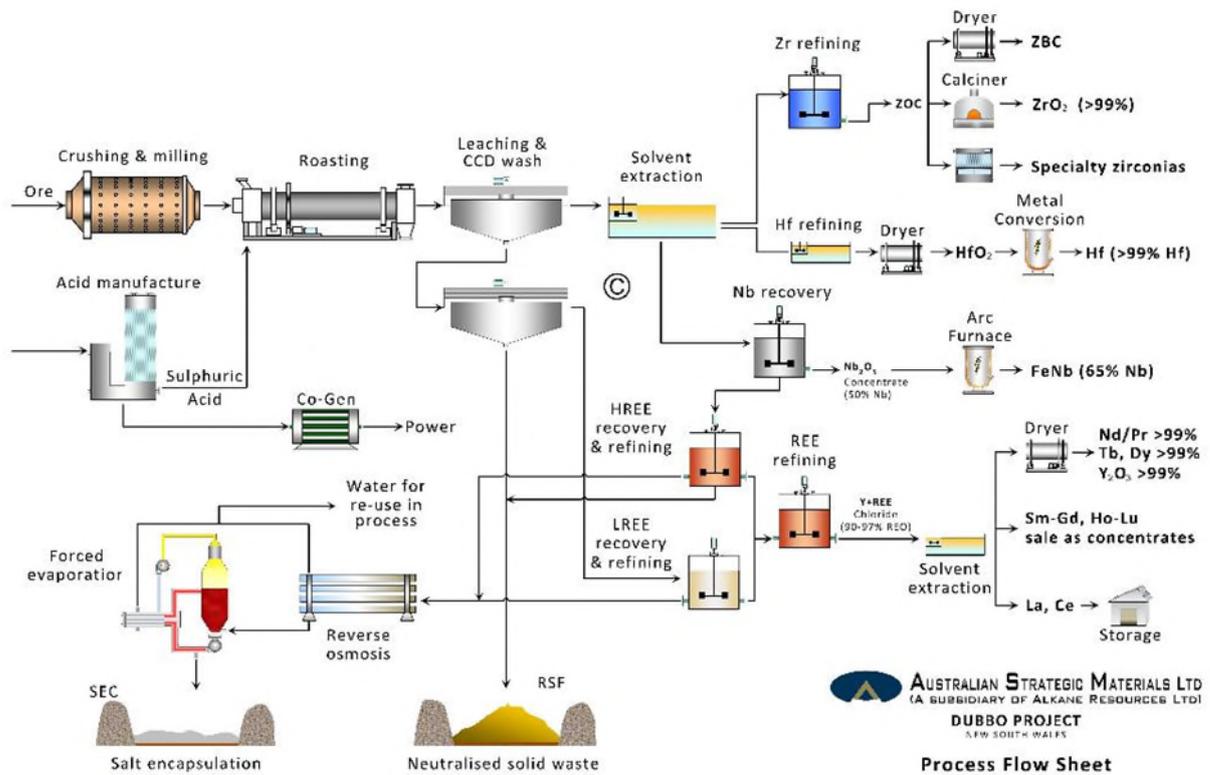
ASM intends to develop the Dubbo Project to supply globally significant quantities of zirconium and rare earth materials, as well as contribute to the niobium and emerging hafnium industries.

The Dubbo Project is ready for construction, subject to financing. ASM owns 3,456 hectares of land at Toongi, encompassing Mining Lease 1724 granted on 21 December 2015 (**ML 1724**). ML 1724 includes the ore resource as well as all of the land required for materials processing. All major state and federal approvals and licences are in place, along with an established process flow sheet and a solid business case.

Operations

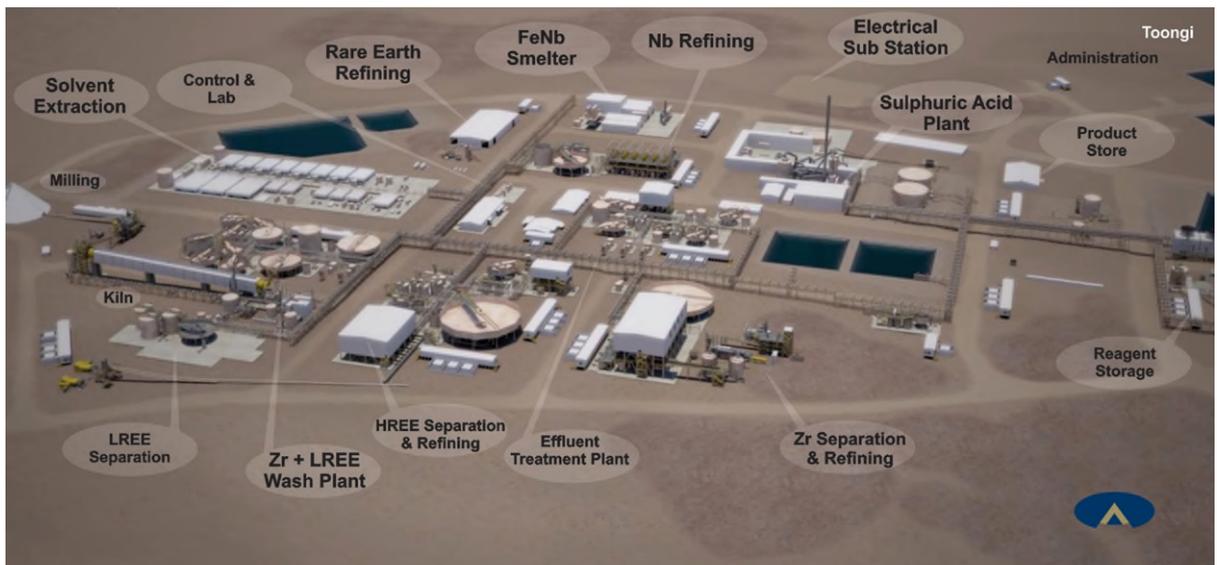
The Engineering & Financials Update released by Alkane in June 2018 anticipated that, at full capacity and once developed, the Dubbo Project mineral processing plant will be capable of receiving 1,000,000 tonnes per annum (1Mtpa) of crushed ore, which will be processed using sulphuric acid leach and solvent extraction recovery to recover zirconium, hafnium, niobium and rare earth products. The process flow sheet has been extensively trialled and proven since 2008 at ASM's demonstration pilot plant (**DPP**), located at the facilities of the Australian Nuclear Science and Technology Organisation Minerals in Sydney. The DPP has provided data incorporated in the capital and operating cost estimates, as well as product samples for testing and customer certification.

Process Flow Sheet shown below:



Mining of the ore deposit will take place in a single open pit, then transported to the processing facility. Sulphuric acid used for leaching will be produced on site using a sulphur burning acid plant that also generates electricity and steam for the process plant. A small amount of waste rock will be extracted and transported to a small waste rock emplacement to the southwest of the open cut. The liquid and solid residues from the processing plant will be transported and stored in liquid residue storage facilities, solid residue storage facilities and salt encapsulation cells.

Site Layout shown below:



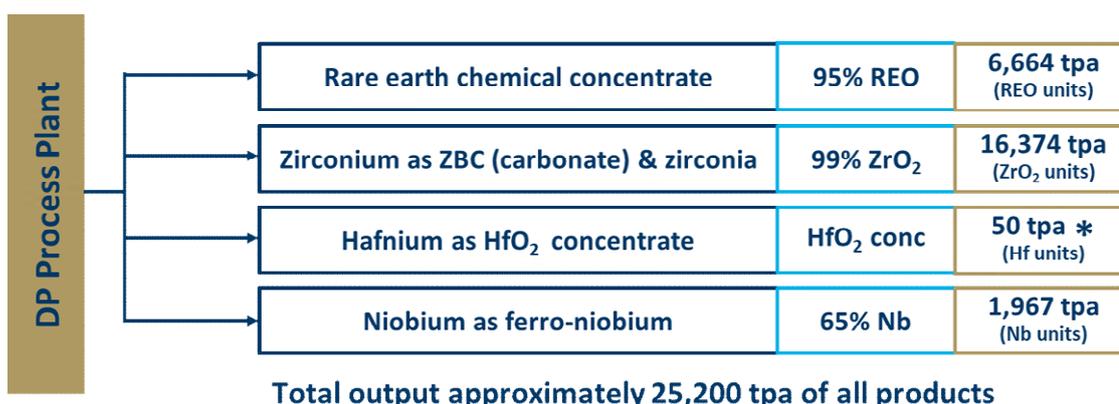
Engineering

A substantial body of engineering work and analysis has been undertaken on the Dubbo Project. Following the completion of two definitive feasibility studies in 2011 and 2013, the front end engineering design was completed by Hatch Pty Ltd in August 2015. ASM then sought to further identify opportunities to maximise value and reduce capital expenditure through a series of engineering reviews and options analyses, including assessment of the likely cost impacts of an aggressive modularisation strategy and a repeatable train execution methodology (that is, a staged approach to construction and development).

The results of all of these additional work streams, carried out from 2015 through to early 2018, were combined internally by ASM to prepare the results described and tabled in the Dubbo Project: Engineering & Financials Update – June 2018 (ASX 4 June 2018). This body of engineering and process development work gives ASM a high degree of confidence in its ability to execute and deliver the program described, with either a staged or full build feasible, depending on the level of off-take contracts obtained.

Products and marketing

ASM intends to produce a suite of zirconium, hafnium, rare earth and niobium materials in the form of chemicals, powders and metals. On the basis that the 1.0mtpa development proceeds, the Dubbo Project Front End Engineering Study (**FEED Study**) generated the following product quantities by commodity category at full production rates. Once commissioned, a modular development commencing at 0.5mtpa will have 50% of the production capacity shown below.



Tonnage based upon recoveries developed from mass balances of the demonstration pilot plant.

* Start up output. 200tpa potential depending upon market demand

These products will be available in a range of standard and customised specifications, based on market requirements. The focus will be on high-value downstream products, used in a range of advanced technologies by leading companies worldwide. ASM's marketing strategy is based on securing long-term customer relationships, founded on a reliable and secure production base.

The initial product range will be complemented by the progressive development of further high-value products in response to customer and market demands.

The FEED Study had the Dubbo Project producing a mix of base zirconium products (including ZOC, zirconium basic carbonate and zirconium dioxide) and premium zirconium products (including yttria-stabilised zirconia and low-hafnium zirconium products). At the current time, ASM already has a global marketing and sales agreement in place with Minchem Limited (**Minchem**) for zirconium products and seven letters of intent for supply in respect of these products (see Section 6.14(d) for further information).

PrNd, Dy, Tb and Y oxide will be separated on site at the Dubbo Project. Other unseparated rare earths contained in the concentrates will be sold on the market.

ASM has a joint venture with Treibacher Industrie AG (**Treibacher**) for the production and marketing of ferro-niobium using all niobium concentrate produced by the Dubbo Project (see Section 6.14(c) for further information).

Financials

A detailed engineering, financial and market update on the Dubbo Project was released to the ASX by Alkane on 4 June 2018. This announcement included an assessment of potential financial outcomes for the Dubbo Project under a 1.0mtpa development scenario and a two-stage development scenario, based on cost

estimates and macroeconomic assumptions. Further detail in relation to the Dubbo Project, including the June 2018 Optimised Feasibility Study, is available in the 4 June 2018 Alkane announcement released to the ASX.

As announced to the ASX on 5 March 2020, Export Finance Australia, the Australian government export credit agency (previously known as the Export Finance and Insurance Corporation) has confirmed its interest in forming part of the financing consortium for the proposed development of the Dubbo Project.

Further detail in relation to the Dubbo Project can be found on the ASM website.

(b) Toongi Pastoral Company

Wholly owned by ASM, Toongi Pastoral Company Pty Ltd (**TPC**) was established in 2016 to manage ASM's freehold and leasehold land and property assets surrounding the Dubbo Project. This comprises a 3,456-hectare aggregation of several properties located 25km south of Dubbo. TPC manages 1,021Ha of biodiversity offsets and 1,995Ha of agricultural land.

TPC operates as a standalone mixed agricultural enterprise (sheep and cattle) that demonstrates leading-practice sustainable farming technologies. The biodiversity offsets are protected in perpetuity under a Conservation Property Vegetation Plan.

(c) RMR Tech

In June 2019, ASM entered into a binding agreement with Zirconium Technology Corporation (**Ziron Tech**), a South Korean company, to fund the final stages of research and feasibility of a new "Clean Metal" metallisation technology developed by scientists at Chungnam National University (CNU) in Daejeon, South Korea (see Section 6.14(a) for further information). This established a new Korean entity, RMR Tech, jointly owned by Ziron Tech and ASM. Under the agreement, ASM initially invested US\$1,200,000 towards a commercial-scale pilot plant located at CNU to develop the technology. The pilot plant is currently being commissioned, ahead of an anticipated commencement of operation in early Q3 of 2020.

One of the agreed outcomes of ASM's investment in RMR Tech is the completion of a feasibility study, to be undertaken by RMR Tech once the technology has been confirmed, for the construction and operation of a commercial-scale facility based on the "Clean Metal" metallisation technology being confirmed through the pilot plant. As part of the agreement with Ziron Tech, ASM has been granted the exclusive global rights on agreed terms to commercialise the technology in relation to hafnium and zirconium metal production. ASM has been granted rights in relation to other metals and has been provided with a general framework on the licence fees and royalties. Licence fees have been agreed per metal based upon the particular market for it. These licence fees sits within an overall 'pool' of USD7,800,000 which applies to the total licence fees payable for all other products. The royalties for each metal are agreed to be capped at the same rates for zirconium and hafnium, and will be agreed

based upon the particular market and the viability of commercialising the particular metal.

(d) Metallisation Development

On the confirmation of the RMR Tech work, both technically and economically, ASM as part of the optimisation program, proposes the integration of the "Clean Metals" metallisation technology into the Dubbo Project. The OSP was developed in conjunction with ANSTO, and is the proprietary solvent extraction process for separating hafnium from zirconium, with potential applicability to other sources of intermediate zirconium products.

If a positive feasibility is demonstrated, the potential exists for ASM and potential investment partners to co-locate an OSP and metallisation facility (pending the outcome of the RMR Tech work). There also exists potential to commercialise the technology, with ASM purchasing available zirconium oxychloride (**ZOC**) on the market (which is the primary precursor for downstream zirconium products) and produce hafnium-free zirconium (suitable for use in the nuclear industry) and also high-purity hafnium metal. Given that ZOC will be a major intermediate product of the Dubbo Project, the Dubbo Project could become a long-term supplier, once in production.

ASM continues to meet with representatives of leading Korean industrial companies involved in relevant metal production, as well as potential hafnium consumers in Korea and elsewhere, and will look to progress marketing discussions in conjunction with the feasibility process.

(e) 2020 Dubbo Project Optimisation Work

ASM's 2018 FEED Study was based on the supply of metal oxides into the critical materials market. In 2019, ASM identified two potential additions that could deliver a positive outcome for shareholders involving the commercialisation of the Dubbo Project and the integration of the "Clean Metal" metallisation. These included enhancements of metallisation and the use of flotation. Together these enhancements aim to lower the development capital expenditure.

- (i) Flotation: The flotation enhancement, if viable, would result in a 1 Mtpa flotation plant to improve the ore feed grade and a 0.5 Mtpa solvent extraction plant to process the higher grade feed with an opportunity to lower the capital cost.
- (ii) Metallisation: ASM is in the late stages of construction of a pilot plant in Korea, with commissioning progressing well, and with production expected to commence in early Q3 of 2020.

The optimisation work expected to be undertaken in 2020 will incorporate the integration of the Dubbo Project with the RMR Tech "Clean Metal" metallisation technology into an integrated project, targeting the improvement of the project

economics with potential reductions in the development capital expenditure and operating costs.

6.5 ASM mineral resources and ore reserves information

The mineral resources and ore reserves for the Toongi deposit, which is the basis of the Dubbo Project, are summarised in the tables below. Mineral resources are wholly inclusive of ore reserves, which are based on economic parameters applied to the mineral resources, reflecting an initial project horizon of 20 years.

Dubbo Project Mineral Resources

Resource Category	Tonnes (Mt)	ZrO ₂ (%)	HfO ₂ (%)	Nb ₂ O ₅ (%)	Ta ₂ O ₅ (%)	Y ₂ O ₃ (%)	TREO*
Measured	42.81	1.89	0.04	0.45	0.03	0.14	0.74
Inferred (approximately)	32.37	1.90	0.04	0.44	0.03	0.14	0.74
Total	75.18	1.89	0.04	0.44	0.03	0.14	0.74

**TREO% is the sum of all rare earth oxides excluding ZrO₂, HfO₂, Nb₂O₃, Ta₂O₅, Y₂O₃*

Dubbo Project Ore Reserves

Reserve Category	Tonnes (Mt)	ZrO ₂ (%)	HfO ₂ (%)	Nb ₂ O ₅ (%)	Ta ₂ O ₅ (%)	Y ₂ O ₃ (%)	TREO*
Proved	18.90	1.85	0.04	0.440	0.029	0.136	0.735
Probable	0						
Total	18.90	1.85	0.04	0.440	0.029	0.136	0.735

**TREO% is the sum of all rare earth oxides excluding ZrO₂, HfO₂, Nb₂O₃, Ta₂O₅, Y₂O₃*

Further detailed information in relation to the Dubbo Project Ore Resources and Reserves is set out in Annexure 2 of this Demerger Booklet.

6.6 ASM's objectives, funding and strategy

The primary long-term objective of ASM is to grow shareholder value through an integrated oxide and "Clean Metals" business with the development of the Dubbo Project to supply globally significant quantities of zirconium and rare earth materials, as well as contribute to the niobium and emerging hafnium industries. These materials are in high demand for a range of existing and future technologies – in particular clean energy and transportation, where they are used in high volumes. In a global market where diversification of supply is becoming

increasingly important, the Dubbo Project has the potential to provide an alternative, sustainable and reliable source of these critical materials.

As part of this objective ASM will complete an optimisation study that incorporates the Dubbo Project, the Oxide Separation Plant (OSP) and the "Clean Metal" metallisation facility, potentially to be located in South Korea, Australia or both, which is expected to complement progression of the Dubbo Project and improve its economics.

ASM pro-forma three year budget (in A\$ million)

	Totals	Year 1	Year 2	Year 3
Corporate & Technical Support	(11.5)	(2.4)	(4.3)	(4.8)
Dubbo & Korea Studies and Financing Initiatives	(3.0)	(2.0)	(0.5)	(0.5)
Toongi Pastoral Company	(1.4)	(2.2)	0.6	0.1
Net cash outflows	(16.0)	(6.6)	(4.2)	(5.2)
Opening Cash	20.0	20.0	13.4	9.2
Closing Cash Balance	4.0	13.4	9.2	4.0

Alkane, as part of the demerger of ASM has provided additional cash to ASM such that ASM's cash balance was \$20,000,000 on 1 April 2020. This date forms the starting date for the ASM pro-forma three year budget above. ASM's cash balance at 31 December 2019 was \$17,311,735. As a result, since 1 April 2020, all relevant Dubbo Project expenditure and corporate overheads of ASM have been paid by ASM out of this amount. As a result, upon implementation of the Demerger, ASM will have cash reserves of approximately \$20,000,000, which is expected to be sufficient to cover the intended work plan over the budgeted period.

Overview of budget items

(a) Corporate & Technical Support

The forecasted Corporate & Technical Support costs included in the budget include, among other items, salaries and directors fees, external consulting fees to deliver an updated FEED Study, travel and accommodation costs, listing and regulatory fees and costs under the Intercompany Services Agreement.

The timing and costs associated with the Corporate and Technical Support expenditure, may vary depending the progress of the development of the Dubbo Project and related financing and off-take agreements. Other variables include the decisions made around the activities of ASM and costs related to the Dubbo Project development.

Costs in the budget are forecast to increase in Years 2 and 3 due to assumptions around the appointment of independent technical experts and forecast advisory and legal costs associated with the financing process. The timing and cost of these assumptions may vary depending upon the speed at which ASM is able to progress with securing funding and

securing off-take for the Dubbo Project. For example, if detailed strategic partner discussions and negotiations happen on an accelerated timetable then costs may be incurred more quickly than forecast.

(b) Dubbo & Korea Studies

The significant cost items included in the forecast of the Dubbo & Korea Studies line item relate to the cost of project optimisation and related engineering work in relation to the Dubbo Project. These significant cost are expected to be incurred largely in Year 1 of the forecast period. However, the timing and costs of these items may vary as a result of, among other things, the outcomes of the proposed studies.

(c) Toongi Pastoral Company

The forecast costs in Year 1 for the Toongi Pastoral Company include the purchase of two land parcels totalling \$2.25m. The Toongi Pastoral Company cash flow, include the purchase and sale of livestock (cattle, sheep) as well as other costs associated with the farming operation (salaries, consumables etc). Livestock stocking rates are based on forecast monthly carrying capacity across livestock class (on a Dry Sheep Equivalent basis) and a 15 year historical average rainfall. Livestock price assumptions are based on prevailing market prices and Meat & Livestock Australia forecast reports for Dubbo sales market.

The ASM pro forma budget summarised above covers the following core areas of activities following the Demerger:

- funding of optimisation and feasibility work in relation to an OSP and "Clean Metal" metallisation facility to produce and sell relevant products;
- continuation of the marketing in relation to both the Dubbo Project and a potential OSP and "Clean Metal" metallisation facility;
- initiatives to obtain financing for the Dubbo Project, including progressing debt, equity and strategic partner investment;
- coverage of corporate overheads; and
- any remaining funding to be provided to RMR Tech to develop the "Clean Metal" metallisation technology.

As noted, the timing and amount of expenditure over the budgeted period is dependent on progress achieved in securing financing and off-take for the Dubbo Project.

This pro forma budget does not include payments that may be potentially triggered through the exercise of put options on select farmland properties over the Dubbo Project (further information is set out in Section 6.14). These potential payments have been historically disclosed as contingent liabilities in the notes to Alkane's financial statements.

Further, the objectives and budgets outlined above focus on positioning ASM to procure funding for the Dubbo Project development, with no allowance for expenditure to commercially develop either the Dubbo Project or the "Clean Metal" metallisation pilot plant included in this budget on the grounds that ASM does not yet have the financing in place to undertake this development.

6.7 Corporate governance

The ASX Corporate Governance Council has developed and released its ASX Corporate Governance Principles and Recommendations 4th Edition (**ASX Recommendations**) for Australian-listed entities in order to promote investor confidence and to assist companies in meeting stakeholder expectations. The ASX Recommendations are not prescriptions, but rather guidelines designed to produce an outcome that is of high quality and integrity. Under the ASX Listing Rules, ASM will be required to provide a statement in its annual report, or the URL of the page on its website where such a statement is located, disclosing the extent to which it has followed the ASX Recommendations during each reporting period. Where ASM does not follow a recommendation, it must identify the recommendation that has not been followed and give reasons for not following it.

This Section 6.7 sets out the approach that ASM will take to corporate governance following the implementation of the Demerger. Relevant charters and policies will be adopted by ASM prior to implementation of the Demerger and made available on ASM's website at www.asm-au.com. ASM's approach to corporate governance will be similar to that of Alkane, with appropriate adjustments made to account for the smaller scale and earlier stage of development of ASM compared with Alkane.

A summary of ASM's proposed approach to corporate governance is set out below:

(a) Composition of the ASM Board

Consistent with the size of ASM and its activities, immediately after implementation of the Demerger, ASM will comprise the five directors referred to in Section 6.9 of this Demerger Booklet. The ASM Board will initially comprise four non-executive directors, one of whom is also the Chairman (Mr Gandel), and one executive director (being Mr Woodall, who will be ASM's managing director). The ASX Corporate Governance Council recommends that a majority of the directors on a board should be independent. ASM will not follow that recommendation immediately following implementation of the Demerger. The composition of the ASM Board is considered appropriate at this time because it will ensure continuity in relation to ASM's business and affairs.

In particular, it is noted that the ASM Board will initially include Alkane's two executive directors, Mr Earner, Alkane's Managing Director, and Mr Chalmers, Alkane's Technical Director. As non-executive directors of ASM, Mr Earner and Mr Chalmers will be in a position to provide guidance and assistance to, and share their expertise and detailed technical knowledge of, ASM's business and affairs with Mr Woodall, who was appointed to the ASM Board in February 2020, and thereby assist with ASM's

transition to a standalone entity following the Demerger. It is, however, proposed that Mr Earner will retire as a director of ASM within the first year following implementation of the Demerger. The appointment of additional non-executive Directors will also be considered.

Alkane and ASM are not expected to be competitors of each other, given the former conducts a gold mining operations and the latter's business is to conduct evaluative activities in relation to and seek to develop the Dubbo critical materials project. Because of this, matters in which the interests of Alkane and ASM will conflict or potentially conflict, and thereby give rise to conflicts for the directors who are common to both companies' boards ("**common directors**") are expected to be limited to matters and/or disputes arising under contracts between the Alkane Group and the ASM Group. Once the proposed restructure contemplated by the Restructure Deed has been implemented (which is proposed to occur before implementation of the Demerger, while ASM remains wholly-owned by Alkane), the only ongoing contracts between Alkane and ASM Group Members will then be the Demerger Deed and the Intercompany Services Agreement. Should matters or disputes arise under these contracts, it is expected that the Alkane Board and ASM Board will delegate where appropriate to the directors of their respective companies who are not common to both Boards (i.e., to the directors who do not have a conflict in relation to the matter), all powers, authorities and discretions in relation to such matters and disputes and resolving them. Each Board will have at least one director who is not a common director: at the outset it is proposed that Mr Lethlean will be a director of Alkane but not of ASM; and it is proposed that Mr Woodall will be a director of ASM, but not of Alkane.

As previously disclosed by Alkane, Mr Gandel has a relationship with Abbotsleigh Pty Ltd as set out in Section 6.9. Abbotsleigh Pty Ltd is a substantial shareholder in Alkane, and subject to the successful implementation of the Demerger will be a substantial shareholder of ASM. The ASM Board has concluded that Mr Gandel's relationship with Abbotsleigh Pty Ltd does not interfere with or compromise his ability to exercise objective or independent judgement in relation to the ASM Group. Similarly, the ASM Board has concluded that Mr Earner acting as a non-executive Director on the board of Genesis Minerals Ltd, does not interfere with or compromise his ability to exercise objective or independent judgement in relation to the ASM Group.

(b) Roles and responsibilities of the ASM Board

The ASM Board will be responsible for all matters relating to the running of ASM. The ASM Board's role is to govern ASM. In governing ASM, the ASM Board must act in the best interests of ASM as a whole. The primary role of the ASM Board will be the protection and enhancement of long-term shareholder value. The ASM Board will be accountable to shareholders for the performance of the company and will direct and monitor the business and affairs of ASM, and be responsible for ASM's overall corporate governance. Without putting a limit on the general role of the ASM Board, the principal functions and responsibilities will include:

- (i) providing leadership to ASM by guiding the development of an appropriate culture and values and always acting in a manner consistent with ASM's culture and code of conduct;
- (ii) overseeing the development and implementation of an appropriate strategy for ASM;
- (iii) ensuring corporate accountability to ASM Shareholders primarily through adopting an effective shareholder communications strategy, encouraging effective participation at general meetings and with the Chairman being the key interface between ASM and ASM Shareholders;
- (iv) overseeing the control and accountability systems that ensure ASM is progressing towards its goals in a manner that is in line with ASM's purpose, its agreed corporate strategy, legislative requirements and community expectations;
- (v) ensuring robust and effective risk management, compliance and control systems (including legal compliance) are in place and operating effectively;
- (vi) being responsible for ASM's senior management and personnel;
- (vii) delegating appropriate powers to the Managing Director, CEO, management and committees to ensure the effective day-to-day management of the business and monitoring the exercise of these powers; and
- (viii) making all decisions outside the scope of these delegated powers.

(c) ASM Board committees

From time to time, the ASM Board may establish committees as it considers necessary or appropriate to assist it in carrying out its responsibilities.

It is anticipated that specific committees will be established prior to ASM's admission to the Official List of the ASX, including Audit, Nomination, Remuneration and Risk committees. The composition of the committees will be detailed in ASM's Corporate Governance Statement which will be made available on ASM's website in due course. The ASM Board will review the composition of each committee on an ongoing basis.

(d) ASM Board processes

The ASM Board's meetings and proceedings will be governed by the ASM Constitution, which is summarised in Section 11.3 of this Demerger Booklet.

It is proposed that ASM Board will develop and adopt a formal board charter upon implementation of the Demerger, which it will publish in due course.

(e) Resources available to the ASM Board

In executing its role and responsibilities, it is expected that the ASM Board will have access to senior management. The ASM Board will also have the authority to seek information from employees and external parties, to obtain outside legal or other professional advice at the expense of ASM, and to ensure company officers attend ASM Board meetings as appropriate.

The chairperson of the ASM Board will be responsible for leadership of the ASM Board, for the efficient organisation and conduct of ASM's Board functions and for the briefing of all ASM Directors in relation to issues arising at ASM Board meetings. The chairperson of the ASM Board will also be responsible for shareholder communication and arrangement of ASM's Board performance evaluation.

Details of ASM's key policies and practices and the charters for the ASM Board and each of its committees will be made available on the ASM website in due course.

ASM's Corporate Governance Statement will be made available on ASM's website in due course.

(f) ASM non-executive director fees

In accordance with ASM's Constitution, the remuneration of the non-executive directors of ASM (**ASM NEDs**) in each financial year will not exceed the maximum aggregate amount determined by ASM Shareholders in general meeting from time to time. The maximum aggregate amount is currently \$500,000, inclusive of superannuation and exclusive of reimbursement of expenses. This remuneration may be divided among the ASM NEDs in such proportions as they decide. The maximum aggregate remuneration amount has been set so as to enable the appointment of additional ASM NEDs if required. Executive directors of ASM (Mr Woodall will be the only executive director (as Managing Director) on implementation of the Demerger) will be remunerated outside of this maximum aggregate fee 'cap'. (Mr Woodall's employment terms are summarised in Section 6.11 below.)

ASM NEDs will be paid a Board fee and additional fees for chairing. The ASM Board proposes the fees payable will initially be as follows:

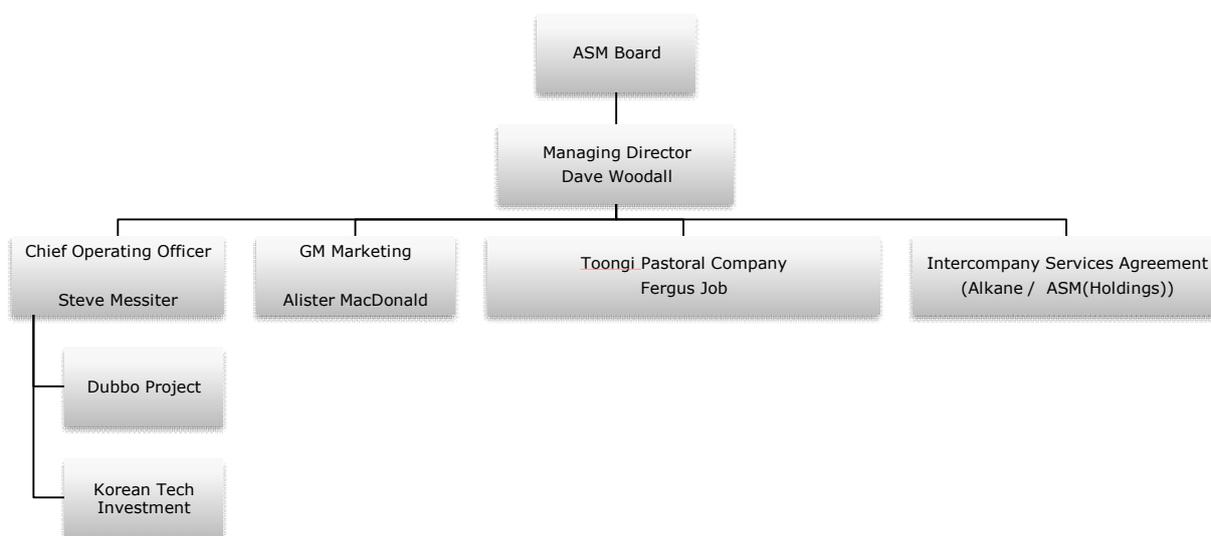
Position	Fees Payable (in AUD)
Base Fees	
Chairman	\$60,000 per annum
Non-Executive Director	\$30,000 per annum

ASM NEDs will not be entitled to receive retirement allowances. Fees provided will inclusive of superannuation and the ASM NEDs will not receive performance-based

pay. Once the listing process has concluded, ASM intends to seek external advice and benchmarking data and conduct a formal review of director remuneration. ASM anticipates that this review of director remuneration will be undertaken in or around Q4 of 2020.

In addition, in accordance with ASM's Constitution (refer Section 11.3 of this Demerger Booklet), ASM NEDs may be paid for travel and other expenses incurred in attending to ASM affairs, including attending and returning from meetings of ASM Directors or ASM Board committees or general meetings. Any ASM NED who devotes special attention to the business of ASM or who performs services which, in the opinion of the ASM Board, are outside the scope of ordinary duties of an ASM Director, may be remunerated for the services (as determined by the ASM Board) out of the funds of ASM.

6.8 ASM organisational chart



6.9 **ASM Directors**

The ASM Board consists of Ian Gandel (Director), David Woodall (Managing Director), Nicolas Earner (Director), David Ian Chalmers (Director), Anthony Lethlean (Director) and Gavin Smith (Director).

Anthony Lethlean is currently a director of ASM. Upon the Demerger being implemented, Mr Lethlean will resign from the ASM Board, such that the ASM Board will be constituted as follows with effect from the time when the Demerger is implemented:

Ian Jeffrey Gandel – Non-Executive Chairman

LLB, BEc, FCPA, FAICD

Mr Gandel is the chairman of the Alkane Board. He is a successful Melbourne-based businessman with extensive experience in retail management and retail property. He has been a director of the Gandel Retail Trust and has had an involvement in the construction and leasing of Gandel shopping centres. He has previously been involved in the Priceline retail chain and the CEO chain of serviced offices. Through his private investment vehicles (which includes Abbotsleigh Pty Ltd), Mr Gandel has been an investor in the mining industry since 1994. Mr Gandel is also a significant shareholder and a director of Abbotsleigh Pty Ltd, the largest holder of quoted ordinary shares of Alkane.

David Graham Woodall – Managing Director

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

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

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

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

Mr Woodall was appointed Managing Director of the ASM Business in February 2020.

David Ian Chalmers – Non-Executive Director

MSc, FAusIMM, FAIG, FIMM, FSEG, MSGA, MGSA, FAICD

Mr Chalmers, Alkane's Technical Director, is a geologist and graduate of the Western Australia Institute of Technology (Curtin University) and has a Master of Science degree from the University of Leicester in the United Kingdom. He has worked in the mining and exploration

industry for over 50 years, during which time he has had experience in all facets of exploration and mining through feasibility and development to the production phase. Mr Chalmers was Technical Director of Alkane until his appointment as Managing Director in 2006, overseeing the group's minerals exploration efforts across Australia and the development and operations of the Peak Hill Gold Mine (NSW). During his time as Chief Executive he steered Alkane through the discovery, feasibility, construction and development of the now fully operational Tomingley Gold Operations; the discovery and ultimate sale of the McPhillamys gold deposit; the recent discovery of the gold deposits immediately south of Tomingley and the porphyry gold-copper discovery at Boda. Mr Chalmers also managed the process development and global marketing effort for the Dubbo Project, advancing it to the threshold of development.

Nicholas Paul Earner – Non-Executive Director

BEng (hons)

Mr Earner, Alkane's current Managing Director, is a chemical engineer and graduate of University of Queensland with over 25 years' experience in technical and operational optimisation and management, and has held a number of executive roles in mining and processing. Mr Earner joined the Alkane Group as Chief Operations Officer in August 2013, with responsibility for the safe and efficient management of Alkane's operations at Tomingley and the Dubbo Project. Under his supervision, the successful development of Tomingley transitioned to profitable and efficient operations. His guidance also drives the engineering and metallurgical aspects of the Dubbo Project, overseeing optimisation of plant design and product and marketing development.

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

Mr Earner sits on the board of Genesis Minerals Ltd as a non-executive Director. He has held this position since 24 October 2019, in his capacity as a representative of Alkane. As at the date of this Demerger Booklet, Alkane is the majority shareholder in Genesis Minerals Ltd.

As noted in Section 6.7(a) above, it is proposed that Mr Earner will resign as a director of ASM within the first year following the Demerger Implementation Date.

Gavin Murray Smith – Non-Executive Director

BCom, MBA, MAICD

Mr Smith is an accomplished senior executive and Non-Executive Director within multinational business environments. He has more than 35 years' experience in information technology, business development, and general management in a wide range of industries and sectors. As Chair and President of Robert Bosch Australia, Mr Smith has led the restructuring and transformation of the local Bosch subsidiary.

Mr Smith is a non-executive director of Alkane.

6.10 ASM's senior management

Following the Demerger, key management personnel and other executives of ASM will include:

David Woodall – Managing Director

Refer to Section 6.9 above for details.

Steve Messiter – Chief Operating Officer

Mr Messiter has extensive experience in senior corporate management and project development including early company development, feasibility studies, process design, technology selection, contractor management and site construction over a career covering in excess of 30 years. Mr Messiter is a qualified chemical engineer, having worked globally and throughout Australia for both mining and chemical industry development and production companies as well as managing and building teams as part of multi-discipline engineering companies.

Alister MacDonald – General Manager, Marketing

With a degree in Ceramic Engineering from the University of New South Wales, Mr MacDonald has been involved with critical metals and materials for over 30 years. He has worked in various technical and marketing capacities across the value chain in Australia and internationally, from minerals processing through to manufacturing of advanced ceramic components.

Mr MacDonald applies his specialist knowledge and analysis of supply chain risks for critical elements needed for a range of advanced technologies used in consumer products, clean energy, clean transportation, and important defence capabilities.

6.11 Summary of employment terms

(a) Mr Woodall

A summary of the key terms of the employment contract and remuneration arrangements for Mr Woodall in his capacity as Managing Director of ASM is as follows:

- Mr Woodall is employed under an annual salary employment contract which commenced on 10 February 2020. Under the terms of the employment contract:
 - Mr Woodall receives a fixed remuneration of A\$375,000 (including superannuation) per annum;
 - Subject to the successful implementation of the Demerger and ASM's admission to the Official List of the ASX, Mr Woodall will be entitled to 3,000,000 ASM performance rights to be paid in two tranches. A summary of the ASM Long-term Incentive Plan is set out below.
 - Mr Woodall may resign from his position and thus terminate his contract by giving 3 months' written notice. On resignation any unvested ASM performance rights will be forfeited;
 - ASM may terminate Mr Woodall's employment contract by providing 3 months' notice or providing payment in lieu of notice. Mr Woodall will be entitled to any performance rights which have vested or will vest during the notice period; and
 - ASM may terminate the contract at any time without notice if serious misconduct has occurred.

Key terms	Summary															
Total fixed remuneration	A\$375,000 (including superannuation) per annum															
ASM Long-term Incentives (3 Year Vesting Period)	3,000,000 Performance Rights, comprised of: <ul style="list-style-type: none"> i) 1,800,000 Tranche 1 performance rights in relation to Total Shareholder Return; and ii) 1,200,000 Tranche 2 performance rights subject to Milestone Targets. 															
Tranche 1 TSR Hurdles	<table border="1"> <thead> <tr> <th>Final Share Price vs Starting Share Price</th> <th>% of Tranche to Vest</th> <th>Target Share Price</th> </tr> </thead> <tbody> <tr> <td>Final Share Price < 150% of Starting Share Price</td> <td>0%</td> <td>150% of Starting Share Price</td> </tr> <tr> <td>Final Share Price => 150% of Starting Share Price</td> <td>33.33%</td> <td>150% of Starting Share Price</td> </tr> <tr> <td>Final Share Price => 200% of Starting Share Price</td> <td>33.33%</td> <td>200% of Starting Share Price</td> </tr> <tr> <td>Final Share Price => 300% of Starting Share Price</td> <td>33.33%</td> <td>300% of Starting Share Price</td> </tr> </tbody> </table>	Final Share Price vs Starting Share Price	% of Tranche to Vest	Target Share Price	Final Share Price < 150% of Starting Share Price	0%	150% of Starting Share Price	Final Share Price => 150% of Starting Share Price	33.33%	150% of Starting Share Price	Final Share Price => 200% of Starting Share Price	33.33%	200% of Starting Share Price	Final Share Price => 300% of Starting Share Price	33.33%	300% of Starting Share Price
	Final Share Price vs Starting Share Price	% of Tranche to Vest	Target Share Price													
	Final Share Price < 150% of Starting Share Price	0%	150% of Starting Share Price													
	Final Share Price => 150% of Starting Share Price	33.33%	150% of Starting Share Price													
	Final Share Price => 200% of Starting Share Price	33.33%	200% of Starting Share Price													
Final Share Price => 300% of Starting Share Price	33.33%	300% of Starting Share Price														
Tranche 2 Milestone Hurdles	<table border="1"> <thead> <tr> <th>Milestone Target</th> <th>% of Tranche to Vest</th> </tr> </thead> <tbody> <tr> <td>In the event a strategic partner organised by ASM buys >15% of ASM / Project</td> <td>25%</td> </tr> <tr> <td>In the event off-take >40% of Project revenue is signed</td> <td>25%</td> </tr> <tr> <td>In the event if debt >40% of Project capital cost is signed</td> <td>25%</td> </tr> <tr> <td>In the event if a Korean metals plant is successfully commissioned on a positive cash flow business case</td> <td>25%</td> </tr> </tbody> </table>	Milestone Target	% of Tranche to Vest	In the event a strategic partner organised by ASM buys >15% of ASM / Project	25%	In the event off-take >40% of Project revenue is signed	25%	In the event if debt >40% of Project capital cost is signed	25%	In the event if a Korean metals plant is successfully commissioned on a positive cash flow business case	25%					
	Milestone Target	% of Tranche to Vest														
	In the event a strategic partner organised by ASM buys >15% of ASM / Project	25%														
	In the event off-take >40% of Project revenue is signed	25%														
In the event if debt >40% of Project capital cost is signed	25%															
In the event if a Korean metals plant is successfully commissioned on a positive cash flow business case	25%															
Cessation of employment	Three (3) months' notice															
Post-employment restraints	N/A															

(b) Mr Messiter

A summary of the key terms of the employment contract and remuneration arrangements for Mr Messiter in his capacity as Chief Operating Officer of ASM is as follows:

- Mr Messiter is employed under a casual employment contract. Under the terms of the employment contract:
 - Mr Messiter receives a fixed day rate of \$2,000 a day; and
 - Mr Messiter's contract does not include a notice period, non-compete provisions or any entitlement to ASM Long-term Incentives.

(c) Summary of ASM Long-term Incentive Plan

Subject to the successful implementation of the Demerger and ASM's admission to the Official List of the ASX, the ASM Board proposes to create a Long-term Incentive plan (**ASM Long-term Incentive Plan**) to grant incentives (**ASM Long-term Incentives**) to eligible ASM executives. A summary of the key terms of the ASM Long-term Incentive Plan is set out below.

Purpose and term	<p>The ASM Long-term Incentive Plan was established to assist in the recruitment, reward, retention and motivation of Eligible Employees.</p> <p>Under the ASM Long-term Incentives the ASM Board may grant ASM Long-term Incentives to Eligible Employees on terms fixed in accordance with the ASM Long-term Incentive Plan.</p> <p>The ASM Long-term Incentive Plan continues in operation until the ASM Board decides to end it.</p>
Commencement	The date of ASM's admission to the Official List of the ASX
ASM Long-term Incentives	<p>Each ASM Long-term Incentives will represent a right to acquire one ASM Share, subject to the terms of the ASM Long-term Incentive Plan.</p> <p>An ASM Long-term Incentive granted to a participant under the ASM Long-term Incentive Plan (Participant) is granted for no cash consideration. If ASM Long-term Incentives vest under the ASM Long-term Incentive Plan, no amount is payable by a Participant in respect of those ASM Long-term Incentives vesting, or the subsequent issue or transfer of ASM Shares in respect of them.</p>

Invitations to participate in the ASM Long-term Incentive Plan The ASM Board may from time to time in its absolute discretion decide that a full time or part time employee of ASM who holds salaried employment with ASM on a full time or part time basis (**Eligible Employee**) is eligible to participate in the ASM Long-term Incentive Plan and may invite them to apply for ASM Long-term Incentives.

An Eligible Employee who is invited to participate in the ASM Long-term Incentive Plan will receive a written invitation. The invitation will set out, amongst other things, the number of ASM Long-term Incentives the Eligible Employee is invited to apply for, the performance criteria to which those ASM Long-term Incentives will be subject (**Performance Criteria**), and the period of time over which the Performance Criteria must be satisfied (**Performance Period**), before the ASM Long-term Incentives can vest.

Performance Criteria and Performance Period The ASM Board's discretion includes determining the number of ASM Long-term Incentives the Eligible Employee is invited to apply for, and the ASM Performance Criteria, and Performance Period over which Performance Criteria is assessed, applicable to those ASM Long-term Incentives.

Vesting of ASM Long-term Incentives An ASM Long-term Incentive granted to a Participant will vest:

- at the end of the Performance Period upon the ASM Board giving written notice to the relevant Participant of the number of ASM Long-term Incentives in respect of which the Performance Criteria were satisfied over the Performance Period; or
- if the ASM Board allows early vesting as a result of an event such as a takeover bid or scheme of arrangement or the cessation of employment of the Participant for a "Qualifying Reason" (see below).

Transfers An ASM Long-term Incentive granted under the ASM Long-term Incentive Plan is only transferable by force of law upon death to the Participant's legal personal representative or upon bankruptcy to the Participant's trustee in bankruptcy.

Subject to the above, Participants are not to grant any security interest in or over or otherwise dispose of or deal with any ASM Long-term Incentives or any interest in them until the relevant ASM Shares are issued or transferred to that

Participant, and any such security interest or disposal or dealing will not be recognised in any manner by ASM.

Exercise on vesting

If an Invitation provides for:

- the deemed automatic exercise of an ASM Long-term Incentive, no further action is required from the Participant upon vesting of an ASM Long-term Incentive in order to exercise that ASM Long-term Incentive; or
- the manual exercise of a vested ASM Long-term Incentive, a Participant may exercise any vested ASM Long-term Incentive at any time from the date the ASM Board notifies the Participant of the vesting of the ASM Long-term Incentive until the date on which an ASM Long-term Incentive lapses, by giving the prescribed form of notice to the ASM Board.

Lapse of ASM Long-term Incentives

An unvested ASM Long-term Incentive, or (where applicable) a vested but unexercised ASM Long-term Incentive, will lapse on the earliest to occur of:

- the end of the Performance Period if the Performance Criteria relating to the ASM Long-term Incentive have not been satisfied;
- the Participant purporting to transfer an ASM Long-term Incentive or grant a security interest in or over, or otherwise purporting to dispose of or deal with, an ASM Long-term Incentive or interest in it (except where the ASM Long-term Incentive is transferred by force of law upon death to the Participant's legal personal representative or upon bankruptcy to the Participant's trustee in bankruptcy);
- the Participant ceasing employment with ASM, except in certain circumstances as explained below under the heading "Qualifying Reason and cessation of employment";
- if in the opinion of the ASM Board, the Participant has acted fraudulently or dishonestly or in breach of his or her obligations to ASM, and the ASM Board determining that the ASM Long-term Incentives held by the Participant should lapse;
- an event such as a takeover bid or scheme of arrangement occurring (in certain circumstances subject to the ASM Board's discretion); and
- the date that is fifteen years after the grant of the ASM Long-term Incentive.

Qualifying Reason and cessation of employment

ASM Long-term Incentives of a Participant will automatically lapse if the Participant ceases to be employed by ASM, unless the Participant ceases to be employed because of a "Qualifying Reason" in which case that Participant's ASM Long-term Incentives will be treated as follows:

- if less than six months of the Performance Period relating to those ASM Long-term Incentives has elapsed at the date of cessation of employment, all of those ASM Long-term Incentives will lapse (unless the ASM Board, in its absolute discretion, determines otherwise); and
- if six months or more of the Performance Period relating to those ASM Long-term Incentives has elapsed at the date of cessation of employment, then (unless the ASM Board, in its absolute discretion, determines otherwise) a proportion of the Participant's ASM Long-term Incentives (calculated by reference to the number of days in the Performance Period which have elapsed as the date of cessation of employment) will be capable of vesting. Such ASM Long-term Incentives will only vest (unless the ASM Board, in its absolute discretion, determines otherwise) if over the Performance Period the Performance Criteria in respect of those ASM Long-term Incentives were satisfied and the ASM Board gives notice to the Participant of its determination to that effect. In such circumstances, the remaining ASM Long-term Incentives of the Participant which do not vest will lapse.

If a Participant ceases to be employed by ASM because of a Qualifying Reason, any vested but unexercised ASM Long-term Incentives held by that Participant will immediately be deemed to have been exercised.

A "Qualifying Reason" includes the death, total and permanent disablement or retirement of the Participant (as determined by the ASM Board in its absolute discretion), or where the Participant ceases to be employed by ASM by a Group Member as a result of the relevant body corporate ceasing to be a Group Member, or as a result of a Group Member selling a business it conducts to someone other than to another Group Member. The ASM Board may also determine, in its absolute discretion, that any other reason will constitute a "Qualifying Reason".

Share limit

The ASM Board must not issue an Invitation, or issue an ASM Share under the Plan, if the sum of:

- a) the number of ASM Shares which would be issued were each outstanding offer with respect to ASM Shares, units of ASM Shares, and options to acquire unissued ASM

-
- Shares, under an employee share scheme to be accepted or exercised; and
- b) the number of ASM Shares issued during the previous three years under the ASM Long-term Incentive Plan or any other employee share scheme extended to Eligible Employees,
- but excluding any offer made, or option acquired, or ASM Shares issued by way of or as a result of Specified Excluded Offers, would exceed 5% of the total number of ASM Shares on issue at that time.
-

Impact of takeover bid or scheme

- If:
- a) a takeover bid (as defined in the Corporations Act) is made for Shares before the end of the Performance Period;
- b) a Court orders a meeting to be held in relation to a proposed compromise or arrangement for the purposes of or in connection with a scheme for the reconstruction of the Company or its amalgamation with any other company or companies; or
- c) any person becomes bound or entitled to acquire Shares under:
- (i) section 414 of the Corporations Act; or
 - (ii) Chapter 6A of the Corporations Act,

the Board will make a determination as to how a Participant's unvested ASM Long-term Incentives and any vested but unexercised ASM Long-term Incentives will be dealt with, and, in doing so, may determine, in its absolute discretion that a Participant's unvested ASM Long-term Incentives vest (in whole or in part) and any vested but unexercised ASM Long-term Incentives are deemed to have been exercised and may impose any conditions on such vesting or exercising as it thinks fit.

In making its determination, the Board will have regard, without limitation, to the extent to which the Performance Criteria in respect of a Participant's ASM Long-term Incentives have been satisfied as at the relevant date.

Adjustments upon alterations of capital

Subject to the ASX Listing Rules, if ASM makes a new issue of securities or alterations to its capital by way of a rights issue, bonus issue or other distribution of capital, reduction of capital or reconstruction of capital, then the ASM Board may make adjustments to a Participant's ASM Long-term Incentives (including, without limitation, to the number of ASM Shares which may be acquired on vesting of the ASM Long-term Incentives) and/or the Performance Criteria on any basis its

sees fit in its absolute discretion to ensure that no advantage or disadvantage accrues to the Participant as a result of such corporate actions.

Subject to the above adjustments, during the currency of any ASM Long-term Incentives and prior to vesting and the issue or transfer of ASM Shares in respect of those ASM Long-term Incentives, Participants are not entitled to participate in any new issue of securities of ASM as a result of their holding of ASM Long-term Incentives.

Notwithstanding any other provision of the rules of the ASM Long-term Incentive Plan dealing with adjustments, an adjustment must not be made under such adjustment rules unless it is consistent with the ASX Listing Rules. ASM may amend the terms of any ASM Long-term Incentive, or the rights of any Participant under the ASM Long-term Incentive Plan, to comply with the ASX Listing Rules applying at the time to any reorganisations of capital of ASM.

Administration

The ASM Board will manage and administer the ASM Long-term Incentive Plan, unless it decides to delegate the management and administration of the ASM Performances Right Plan, and any of its powers or discretions under the ASM Long-term Incentive Plan, to a committee.

Amendment of the ASM Long-term Incentive Plan

The ASM Board may by written instrument amend all or any of the provisions of the ASM Long-term Incentive Plan, with retrospective effect, provided that the amendment does not materially reduce the rights of any Participant as they existed before the date of amendment. The ASM Long-term Incentive Plan provisions do, however, provide that in limited circumstances (for example, for the purpose of complying with relevant legislation or the ASX Listing Rules) amendments may be made even if they materially reduce the rights of a Participant.

6.12 Selected pro forma financial information

ASM pro forma financial information is set out in Section 7 of this Demerger Booklet.

6.13 Dividend policy

The ASM dividend policy will be determined by the ASM Board at its discretion, having regard to the status of ASM's operations and balance sheet and forward looking strategy. However,

it is not anticipated that ASM will be in a position to pay any dividends in the near or medium term.

6.14 **Material contracts**

Set out below is a non-exhaustive summary of the key terms of the material contracts to ASM.

(a) RMR Technology Joint Venture Agreement

On 29 July 2019 ASM entered into an incorporated joint venture with Ziron Tech to jointly develop and commercialise patented metallisation technology for the process of zirconium and hafnium oxides into pure metals. The technology will be further developed and tested at a pilot plant in Daejon, Republic of Korea, with a view to preparing a feasibility study to assess the potential commercialisation and sale of zirconium and hafnium metals into world-wide markets.

The joint venture established a new Korean company, RMR Tech. ASM acquired a 10% interest in RMR Tech with Ziron Tech retaining a 90% interest. Funds from ASM's acquisition will be used for the construction and operation of the pilot plant.

There are three key agreements which govern the joint venture, summarised below. All three agreements are subject to the law of the Republic of Korea with disputes referred to arbitration in Singapore.

(i) RMR Shareholders' Agreement

Board composition and joint control

The RMR Shareholders' Agreement (**RMR SHA**) governs the conduct of the shareholders of RMR and provides certain minority shareholder protections for ASM. The RMR board is comprised of two ASM directors and two Ziron Tech directors (**RMR Board**). RMR Board meetings are conducted quarterly.

Sublicensing of technology

The technology may be sublicensed on terms agreed by the RMR Board with profits distributed according to the respective shareholdings.

Lending

ASM may provide lending of up to US\$600,000 to RMR Tech, for on-lending to Ziron Tech to meet co-commitment requirements for Korean government funding, and for further working capital for RMR Tech. These loans may be converted to equity in RMR Tech where not repaid within three years at the original investment par value of US\$600,000. This lending facility was provided due to third party creditors potentially holding rights to the technology in the event of Ziron Tech's insolvency. As at 30 April 2020, the total amount of lending facility provided to Ziron Tech was US\$573,489.

Termination

The RMR SHA may be terminated in the following circumstances:

- (A) material default where such default is capable of remedy and not remedied within 20 days;
- (B) a party is insolvent;
- (C) a change of control of a party occurs; or
- (D) where for any reason a shareholder is prevented by law from being a shareholder.

Full written consent for the Demerger has been obtained from Ziron Tech.

(ii) Technology Commercialisation Licence

This licence provides for the commercialisation of the technology following the pilot plant testing phase. Upon the technology being proven feasible at the RMR Tech pilot plant as confirmed via the feasibility study, ASM may elect to construct a commercial scale plant for the production of zirconium and hafnium metals under an exclusive licence.

Licence Fees and Royalties

A one-off licence fee of US\$2,275,000 is payable to Ziron Tech. Following establishment of a commercialisation plant and obtaining sales revenues, royalties of 7.5% of net revenue are payable to RMR Tech where gross margin exceeds 15%. Royalties are reduced to 5% of net revenue where gross margin is under 15%. Both royalty rates will reduce by 50% after total royalty payments of US\$20,000,000 have been made.

Termination

There are provisions which govern the situation where the feasibility study fails to prove the technology is viable. Where this occurs, the following provisions are followed:

- (A) the parties may agree on a further feasibility study to prove viability of the technology on terms including cost and duration as mutually agreed by the parties;
- (B) where the parties cannot agree to a further feasibility study the licensor (RMR Tech) within a 24 month period may appoint an alternative licensee for the purposes of commercialising the technology;

- (C) where the licensor elects to appoint a new licensee, ASM may match the terms of the new licensee and elect to continue as the exclusive licensee on those terms for the purposes of commercialising the technology; and
- (D) where following a 24 month period lapsing and a new feasibility study is not agreed and no alternative licensee has been appointed, either party may terminate the licence.

Additionally, the licence includes standard terms providing for termination on grounds of unremedied material breach and insolvency.

Licence for all metal products

An amendment to the Technology Commercialisation Licence was agreed on 13 February 2020 extending the exclusive commercialisation licence to all other non-zirconium and hafnium metal products. This allows for the exclusive commercialisation of other metals including rare earth elements and other Dubbo Project products using the patented process. The parties have agreed to cap licence fees for the development of all metals (including zirconium and hafnium) to US\$10,000,000. Royalty rates shall be agreed by the parties on a case by case basis but which in each case will be capped at the rates applicable to the zirconium and hafnium licence. Within these agreed limits, licence fees and royalties applicable to each product shall be determined based upon the particular market economics for each product.

(iii) Deed of Restated Technology Licence

This agreement confers an exclusive licence for the technology from the patent owners, Ziron Tech, to RMR. This secures joint control of the technology and all related intellectual property to ASM via its joint control of RMR. All new intellectual property related to the patented process developed as part of the joint venture will vest in RMR and new world-wide patent applications may be made by RMR for all patentable new intellectual property.

Termination

The licence includes standard terms providing for termination on grounds of unremedied material breach and insolvency.

(b) ANSTO – Intellectual Property Agreement

(i) Technology Agreement 2004

Since 2004 process technology required for the Dubbo Project and related intellectual property has been developed and tested at the Australian Nuclear Science and Technology Organisation (**ANSTO**) laboratories. An agreement has been in force since that time which reserves ownership of all intellectual property related to the Dubbo Project to ASM. Significant innovations to this

technology contributed by ANSTO are the property of ANSTO. A licence is granted to ASM to apply such improvements for the purposes of the Dubbo Project.

(ii) Heads of Agreement 2020

Given the substantial development of the Dubbo Project and related technology since 2004 including the recent establishment of the Korean Joint Venture a heads of agreement was executed between ASM and ANSTO on 13 February 2020. The Heads of Agreement defines the project’s intellectual property and designates ownership, licencing and respective rights of use between the parties with a view to settling the terms of a licence once project activities are further defined and scheduled. The two main categories of intellectual property related to ASM activities and respective rights are described below:

Technology	Ownership	Licence
Dubbo Project Zirconium solvent extraction Process	<p>Proprietary intellectual property and know-how jointly owned by ANSTO and ASM.</p> <p>Patent(s) – to be jointly owned by ANSTO and ASM – equal undivided share.</p>	<p>ANSTO covenant not to commercially exploit its proprietary IP in Technology A – including rights under patent applications/patents granted.</p> <p>ANSTO retain rights for internal (non-commercial) research.</p> <p>Ownership of improvements to a party’s background/existing IP vests in original owner of the background/existing IP.</p> <p>Licence to ANSTO know-how required for use of Technology – ANSTO retain rights for use of ANSTO developed know-how including in providing services to third parties.</p>
Solvent extraction process to Produce High Purity Zirconia and Hafnia	<p>ANSTO proprietary intellectual property and know-how.</p> <p>Patent(s) – to be owned by ANSTO.</p>	<p>ANSTO grants exclusive licence to ASM and covenants not to commercially exploit Technology B.</p> <p>ANSTO retain rights for internal (non-commercial) research.</p> <p>Ownership of improvements to ANSTO’s background/existing IP vests in ANSTO.</p> <p>Ownership of improvements/innovations/new patents derived from Technology A patent(s) vests in creator of such improvements.</p>

(iii) Reimbursement and commercial terms

Payments are as set out in accordance with two phases in accordance with the project stages of development.

- (A) Phase 1 (years 1 – 3) addresses the first testing phase of the project prior to construction and commercialisation. Following payment of a A\$100,000 up front fee, ASM may elect to either:
 - (aa) pay a further A\$100,000 annual licence fee with ANSTO research and development provided on a time and materials basis; or
 - (bb) commit to A\$300,000 per annum take or pay commitment for research and development services inclusive of the annual licence fee.
- (B) Phase 2 (years 4 – 13) addresses the project commencement and commercialisation stage which provides for a ten year commercialisation licence. ASM may elect to either:
 - (aa) pay A\$2,000,000 licence fee with a take or pay commitment of A\$250,000 per annum on R & D services for 4 years; or
 - (bb) pay \$2,500,000 licence fee with all R&D support on a time and materials basis.

A comprehensive licence drafted in accordance with the Heads of Agreement principles is to be entered into between the parties. This licence is currently under discussion and review.

(c) Treibacher Joint Venture

In July 2013 ASM entered into a joint venture framework agreement (**Framework Agreement**) with Austrian company Treibacher to develop and commercialise technologies related to the processing of niobium pentoxide concentrate into ferroniobium metal. Alkane provided a parent company guarantee to Treibacher as part of the contracting arrangements with ASM. However, Alkane has secured a release from Treibacher in relation to the parent company guarantee.

The Framework Agreement provides for the initial development of the technology, product feasibility studies and design of a process plant prior to Dubbo Project commencement. Following commercial and technical feasibility being proven and commencement of Dubbo Project construction, three agreements come into effect. These are:

(i) ASM – Treibacher Joint Venture Company

A joint venture company shall be incorporated in Australia for the purposes of owning, construction and operation the ferroniobium processing plant. Niobium pentoxide shall be provided by ASM and processed into Ferroniobium to be sold via the joint venture company. It is proposed that Treibacher and ASM will each hold a 50 per cent share with equal board representation and thereby joint control of the company.

(ii) Sales Agency agreement

The JV Company shall enter into a sale agency agreement which gives Treibacher exclusive marketing and sales agency for the sale of ferroniobium products for an indefinite term. Treibacher shall receive 5 per cent commission on all sales.

(iii) Off-take Agreement

ASM is proposing to supply niobium pentoxide concentrate at agreed quantities and prices to the joint venture company for processing into ferroniobium. The Off-take Agreement also provides an option for Treibacher to purchase up to 200 tonnes per year of yttrium oxide at prevailing prices determined by the average of ASM's other customers' prices.

These joint venture agreements do not come into effect where the ASM Board elects not to commence construction of the Dubbo Project. As of 30 June 2014, either party may elect to terminate the Framework Agreement in the absence of the condition precedent for project commencement being met. Both parties have currently elected to keep the Framework Agreement on foot. Whilst the condition precedent for project commencement remains unmet, in the event ASM wish to terminate it may be liable to pay €2,000,000 to Treibacher. Where Treibacher elects to terminate the agreement, ASM shall only be liable to pay €1,000,000 for intellectual property developed by the parties for the ferroniobium process. Where ASM elects not to take the intellectual property, it is not liable to make any payments to Treibacher.

(d) Zirconium Marketing Contract

In August 2016 ASM entered into a marketing and sales agreement with English company Minchem for a five year term. Minchem have considerable experience marketing zirconium oxides and related products and chemicals. The agreement appoints Minchem as sales agent to engage potential off-take partners for the purchase of zirconium oxide products for a quarterly fee of \$A25,000. As part of their services Minchem must provide a marketing report as well as present standard off-take terms and conditions to potential long-term off-take partners and generally assist negotiation.

(e) Options for Dubbo land purchases

ASM has entered into agreements with five Dubbo landowners which provide options for the landowners to require that ASM purchases their property where certain project milestones are reached (**Put Options**). Each Put Option is described further below:

(i) Block A (estimated value A\$1,000,000)

ASM has committed to purchase a block of land for an estimated price of A\$1,000,000 from the landowner as part of an agreement where it purchased a property in 2014 that was required for the Dubbo Project. The landowners have exercised the put option and the settlement date for purchase of this property is 2 November 2020 when the purchase price will be payable. The actual price shall be determined as 1.8 times the average of two valuations current at August 2020 (valuation of Block A on 19 August 2015 was \$582,000). It is currently estimated that when subject to the agreed 1.8 multiplier the valuations will set a purchase price of around \$1,000,000.

(ii) Block B (estimated value A\$3,670,000)

At any time during the period of ten years following the commissioning of the Dubbo Project (ie, following the completion of project construction), the landowner may require ASM to purchase the remaining portion of the property located on Block B. The final price shall be determined upon an agreed formula of 1.5 times current market value at the time of exercise.

(iii) Block C (estimated value A\$660,000)

The landowner may require ASM to purchase the property at any time during a five year period following the grant of a mining lease on 17 December 2015. This option will expire 17 December 2020.

(iv) Block D (estimated value A\$1,100,000)

The landowner may require ASM to purchase the property located at Block D at any time for the duration of the Dubbo Project mine life. The price shall be determined upon an agreed formula which is 1.8 times the average of two valuations at the time the option is exercised.

(v) Block E (estimated value A\$220,000)

The landowner may require ASM to purchase the Block E parcel of land, as part of a particular project consent condition. Within three months of receiving a written request from the landowner ASM must make a binding written offer to purchase the land which must be based upon;

(A) prevailing market value of the property;

- (B) all reasonable costs associated with the landowner relocating within the Dubbo region; and
- (C) registration and regulatory costs, any legal and expert advice for determining the acquisition price.

A professional valuation shall be procured by both ASM and the landowner to determine price. Where the acquisition price cannot be agreed within the three month period, the matter is referred to the General Secretary of the Department of Planning, Industry and Environment for resolution.

- (f) Demerger Deed, Intercompany Services Agreement and Restructure Deed

Summaries of the Demerger Deed, Intercompany Services Agreement and Restructure Deed are included in Section 8.6.

6.15 **Health, safety, environment and community**

ASM intends to retain and build on the corporate culture and ethos created at Alkane, namely, to optimise effectiveness and efficiency by maximising efforts going into commercialising the Dubbo Project and minimising overheads, and to shorten the time frame to success by staying focussed on this aim while at all times complying with environmental regulatory requirements.

ASM is committed to:

- ensuring a safe workplace for its employees and contractors, wherever it operates;
- complying with all environmental requirements and minimising the impact of its activities in the areas in which it operates; and
- engaging with the local communities to ensure its activities are compatible with expectations.

ASM will also build on Alkane's practices and adopt best practice work, health and safety policies as appropriate for ASM's operations as a development company comprised of a predominantly corporate workforce with minor farming and pilot plant operations. ASM management shall utilise its experience and involvement as an operational gold miner to proactively develop its policies as required for Dubbo Project development including construction and operations.

6.16 **Litigation**

As at the date of this Demerger Booklet, there is no material litigation involving ASM.

6.17 Property, plant and equipment

(a) Property

ASM currently owns 3,438 hectares of land which is required for the project site comprised of the properties listed below. Current use is predominantly dedicated to the Toongi Pastoral Company for primary production. Alkane's accounting policy is to record property at cost which totalled \$22.1 million as at 31 December 2019.

Property

Grandale, 101R Benolong Road, Terrabella via Geurie NSW 2818

Ugothery, 118R Benolong Rd, Benolong/Geurie NSW 2818

9 Dubbo Street, Toongi NSW (also 16R Toongi Rd)

Brassingtons, Toongi Road, Toongi NSW

12R Toongi Road, Toongi

Wychitella, 4R The Springs Road, Toongi NSW

Pacific Hill, 13L The Springs Road, Toongi NSW

(Part) Glen Idol, Geurie NSW

Karingle, 65L Eulandool Road, Geurie NSW

Dowds Hill Trig Reserve

Toongi Valley, Toongi NSW

Adj to Glen Idol

(b) Water Licences

Water licences are held by ASM to supply water for the Dubbo Project, including construction works and operations. ASM has access to an aggregate 2,076 mega litres. Accounting policy is to record these licences at cost and as at 31 December 2019, the

total cost of water licences purchased to date was \$4.6 million. The licences owned are summarised below:

Water Access Licence ID	Mega litres
High Macquarie / Cudgegong	
19994	22
9191	218
3396	282
36409	300
3412	34
General Macquarie / Cudgegong	
30259	750
Upper Macquarie Alluvial Groundwater source	
37691	470
Total:	2,076

7. FINANCIAL INFORMATION OF ASM

7.1 Purpose

The financial information contained in this Section 7 contains the financial information of ASM and has been prepared in connection with ASM's application to be admitted to the Official List of the ASX following the implementation of the Demerger.

This section contains the following financial information:

- (a) the historical financial information of ASM (hereafter the **ASM Historical Financial Information**), comprising:
 - (i) the historical income statements for the financial years ended 30 June 2018 and 30 June 2019 and for the half years ended 31 December 2018 and 31 December 2019;
 - (ii) the historical balance sheet as at 31 December 2019; and
 - (iii) the historical cash flow statements for the financial years ended 30 June 2018 and 30 June 2019 and for the half years ended 31 December 2018 and December 2019;
- (b) the pro forma historical financial information of ASM (hereafter the **ASM (Post-Demerger) Pro Forma Historical Financial Information**), comprising:
 - (i) the pro forma historical income statements for the financial years ended 30 June 2018 and 30 June 2019 and for the half years ended 31 December 2018 and 31 December 2019;
 - (ii) the pro forma historical balance sheet as at 31 December 2019; and
 - (iii) the pro forma historical cash flow statements for the financial years ended 30 June 2018 and 30 June 2019 and for the half years ended 31 December 2018 and 31 December 2019.

The ASM Historical Financial Information and the ASM (Post-Demerger) Pro Forma Historical Financial Information together form the **ASM Financial Information**.

The ASM Financial Information presented in this Section 7 should be read in conjunction with the risk factors incorporated under Section 3.4 of this Demerger Booklet and other information in this Demerger Booklet. Investors should note that past results are not a guarantee of future performance.

All amounts disclosed in this section are presented in Australian dollars.

7.2 Basis of preparation and presentation of the ASM Financial Information

(a) Overview

The ASM Board is responsible for the preparation and presentation of the ASM Financial Information. The ASM Financial Information included in this Demerger Booklet is intended to present potential investors with information to assist them in understanding the historical financial performance, financial position and cash flows of ASM.

The ASM Financial Information is presented in an abbreviated form and does not include all of the presentation, disclosures, statements and comparative information as required by the AAS applicable to general purpose financial reports prepared in accordance with the Corporations Act. The Investigating Accountant has prepared an Investigating Accountant's Report in respect of the ASM historical and pro forma historical balance sheets, a summary of which is included in Section 7.6 of this Demerger Booklet.

Figures, amounts, percentages, estimates and calculations are subject to the effect of rounding. Accordingly, totals in tables may not add due to rounding. The financial information in this section should be read in conjunction with the risk factors set out in Section 1.9 of this Demerger Booklet.

(b) Preparation of ASM Historical Financial Information

The ASM Historical Financial Information has been derived from the interim financial statements of ASM for the half year ended 31 December 2019 including comparatives for the half year ended 31 December 2018 and the full year financial statements of ASM for the financial years ended 30 June 2018 and 30 June 2019. The interim financial statements of ASM were reviewed by PricewaterhouseCoopers in accordance with the Australian Auditing Standards. PricewaterhouseCoopers issued an unqualified review opinion on these interim financial statements with an emphasis of matter – basis of accounting and restriction on use. The full year financial statements of ASM were audited by PricewaterhouseCoopers in accordance with the AAS. PricewaterhouseCoopers issued an unqualified audit opinion on these full year financial statements with an emphasis of matter – basis of accounting and restriction on use. The financial reports were prepared for the purposes of meeting the requirements of Australian Strategic Materials Ltd and its members in the preparation of the financial information in this Demerger Booklet. The ASM financial statements for these periods are available from ASM's website (www.asm-au.com).

The ASM Historical Financial Information has been prepared in accordance with the recognition and measurement principles prescribed in Australian Auditing Standards (including Australian Accounting Interpretations), adopted by the AASB, which comply with the recognition and measurement principles of the IFRS and interpretations adopted by the IASB.

Australian Auditing Standards are subject to amendments from time to time, and any such changes may impact the balance sheet of ASM Post-Demerger. In addition, following the Demerger, ASM may be impacted by accounting policies adopted which are different to existing policies, and differences in interpretations of AAS.

In preparing the ASM Financial Information, the accounting policies of ASM have been applied.

(c) Preparation of ASM Pro Forma Historical Financial Information

The ASM (Post-Demerger) Pro Forma Historical Financial Information has been prepared solely for the purpose of inclusion in this Demerger Booklet. By its nature, pro forma historical financial information is illustrative only. Consequently, the ASM (Post-Demerger) Pro Forma Historical Financial Information does not purport to reflect the actual or future financial performance or cash flows for the relevant period, nor does it reflect the actual financial position of ASM at the relevant time.

The ASM (Post-Demerger) Pro Forma Historical Financial Information has been prepared in accordance with AAS and has been prepared on a consistent basis with the accounting policies set out in ASM's interim financial statements for the half year ended 31 December 2019.

The ASM (Post-Demerger) Pro Forma Historical Financial Information has been derived from ASM Historical Financial Information and adjusted for the pro forma adjustments described below.

The ASM (Post-Demerger) Pro Forma Historical Information includes pro forma adjustments to reflect the impact of certain transactions as if they occurred at 31 December 2019 in the pro forma historical balance sheet and immediately prior to 1 July 2017 in the pro forma historical income statements and pro forma historical cash flows.

The AAS are subject to amendments from time to time. During the historical periods presented, ASM have adopted AASB 15 *Revenue from Contracts with Customers* effective from 1 January 2018 and AASB 16 *Leases*, effective from 1 January 2019. ASM have assessed the impact of AASB 15 and AASB 16 on periods prior to adoption and noted no material impact as such pro forma adjustments have not been reflected in the historical periods prior to adoption, for these items.

Pro forma adjustments have been made to ASM for:

- (i) the internal restructure and forgiveness of the intercompany loan prior to the Demerger;
- (ii) the accounting for the Demerger;

- (iii) additional standalone corporate costs of ASM including corporate staff, company secretarial costs, ASX listing fees, share registry costs, audit fees, insurance and the costs of maintaining a separate board of directors; and
- (iv) the expected tax effects of the pro forma adjustments outlined in the pro forma historical income statements.

The ASM pro forma historical cash flow statements set out in Section 7.7 are presented as cash flows after net capital expenditure, finance costs and tax.

7.3 ASM historical income statements

Set out below are ASM's historical income statements for the financial years ended 30 June 2018 and 30 June 2019 and the half years ended 31 December 2018 and 31 December 2019.

Table 7.3: ASM historical income statements

	Half-year ended 31 December 2018	Half-year ended 31 December 2019	Year ended 30 June 2018	Year ended 30 June 2019
Other income	818,367	733,283	2,026,475	1,763,484
Pastoral company expenses	(601,433)	(456,087)	(894,449)	(1,184,711)
Other expenses	(490,098)	(243,610)	(864,835)	108,259
Exploration and evaluation expenditure written off	-	-	(6,878)	(444,135)
Finance charges ¹	(1,703,628)	(1,782,038)	(3,291,158)	(3,417,610)
Profit before income tax	(1,976,792)	(1,748,452)	(3,030,845)	(3,174,713)
Income tax benefit/(expense)	82,436	(10,076)	74,831	(72,869)
Net profit after income tax	(1,894,356)	(1,758,528)	(2,956,014)	(3,247,582)
EBITDA²	(578,611)	(142,745)	(352,431)	(328,457)
Intercompany interest per AASB92	(1,703,628)	(1,782,038)	(3,267,236)	(3,417,610)
Profit after tax, excluding intercompany interest³	(190,728)	23,510	311,222	170,028

1. ASM's historical finance charges expense includes interest calculated per AASB 9 in relation to the intercompany loan between Alkane and ASM.
2. Represents historical EBITDA from continuing operations
3. ASM's historical profit after tax, excluding intercompany interest, reconciles to the ASM historical income statements deconsolidated from the Alkane Group, in the Alkane pro forma income statements shown in Section 5.5.

7.4 Management commentary on historical results

ASM continues to focus on product development and seeking financing, strategic partner (or partners) and off-take agreements for the Dubbo Project with the majority of the net asset position on the balance sheet comprising exploration and evaluation assets.

7.5 ASM (Post-Demerger) pro forma historical income statements

Set out below are the ASM (Post-Demerger) pro forma historical income statements for the years ended 30 June 2018 and 30 June 2019 and the half years ended 31 December 2018 and 31 December 2019.

Table 7.5A: ASM (Post-Demerger) pro forma historical income statements

	HY18	HY19	FY18	FY19
Other income	818,367	733,283	2,026,475	1,763,484
Pastoral company expenses	(601,433)	(456,087)	(894,449)	(1,184,711)
Other expenses	(1,299,223)	(1,052,735)	(2,483,085)	(1,509,991)
Exploration and evaluation expenditure written off	-	-	(6,878)	(444,135)
Finance charges ¹			(23,922)	
Profit before income tax	(1,082,289)	(775,539)	(1,381,859)	(1,375,353)
Income tax benefit/(expense) ²	82,436	(10,076)	74,831	(72,869)
Net profit after income tax	(999,853)	(785,615)	(1,307,028)	(1,448,222)

1. Intercompany interest charges on intercompany loan per AASB 9 calculations have been removed from above pro forma. Intercompany finance charges recognised in the historical income statement were for accounting purposes only are detailed in the table below. The intercompany loan agreements do not charge interest on the intercompany loan and there has been no cash interest paid or payable.
2. ASM's income tax benefit / (expense) has not been adjusted on a pro forma basis as any adjustment will be trivial in nature to the figures presented.

	HY18	HY19	FY18	FY19
Intercompany interest per AASB9	1,703,628	1,782,038	3,267,236	3,417,610

Reconciliation of ASM historical income statements to ASM (Post-Demerger) pro forma historical income statements

Reconciliations of the ASM historical income statements to the ASM (Post-Demerger) pro forma historical income statements for the years ended 30 June 2018 and 30 June 2019 and

the half years ended 31 December 2018 and 31 December 2019 are shown in the following table.

Table 7.5B: Reconciliation of ASM historical profit after tax to ASM (Post-Demerger) pro forma historical profit after tax

	HY18	HY19	FY18	FY19
Historical profit before tax ¹	(1,976,792)	(1,748,452)	(3,030,845)	(3,174,713)
Finance charges ¹	1,703,628	1,782,038	3,267,236	3,417,610
Pro forma net additional standalone operating costs ²	(809,125)	(809,125)	(1,618,250)	(1,618,250)
Pro forma profit before income tax	(1,082,289)	(775,539)	(1,381,859)	(1,375,353)

1. Historical profit before tax includes capitalised intercompany interest charges between Alkane and ASM that have been calculated in accordance with AASB 9.
2. Following implementation of the Demerger, ASM will be a standalone entity listed on the ASX. As a standalone entity, it is estimated that ASM's net additional operating costs will be in the order of \$1,618,250 per annum. These costs include corporate staff, company secretarial costs, ASX fees, insurances, audit, information technology and board fees that have been previously provided for by Alkane.

7.6 **ASM historical balance sheet and ASM (Post-Demerger) pro forma historical balance sheet as at 31 December 2019**

(a) Basis of preparation

The ASM (Post-Demerger) pro forma historical balance sheet as at 31 December 2019 set out below is provided for illustrative purposes only and is prepared on the assumption that the Demerger was implemented at 31 December 2019. If approved, the Demerger is expected to be implemented in July 2020. The ASM Group comprises ASM and each of its subsidiaries. The ASM Pro Forma Historical Balance Sheet does not illustrate the financial position that may be contained in future financial statements of ASM following the Demerger.

In preparing the ASM Pro Forma Historical Balance Sheet, no adjustments have been made for potential changes in the cost or operating structure resulting from the Demerger or to reflect the trading of ASM since 31 December 2019 or the fair value movements of financial assets post 31 December 2019 however adjustments have been made for capital restructures that will take place as a result of the Demerger.

Table 7.6: ASM historical balance sheet and ASM pro forma historical balance sheet as at 31 December 2019

	Historical Balance Sheet			Pro Forma Historical Balance Sheet
	ASM Group 31 December 2019	Cash & Working Capital ¹	Share capitalisation & Intercompany Loan ²	ASM Group 31 December 2019
CURRENT ASSETS				
Cash and cash equivalents	17,311,735	2,688,265	-	20,000,000
Receivables	22,287	-	-	22,287
Consumables	3,662	-	-	3,662
Biological assets	37,402	-	-	37,402
Total current assets	17,375,086	2,688,265	-	20,063,351
NON-CURRENT ASSETS				
Exploration and evaluation*	89,541,515	-	-	89,541,515
Property, plant & equipment	27,519,685	-	-	27,519,685
Investments**	1,856,886	-	-	1,856,886
Biological assets	267,758	-	-	267,758
Other financial assets	20,000	-	-	20,000
Total non-current assets	119,205,844	-	-	119,205,844
TOTAL ASSETS	136,580,930	2,688,265	-	139,269,195
CURRENT LIABILITIES				
Trade and other payables	227,378	-	-	227,378
Loans from related party	4,570,226	2,688,265	(7,258,491)	-
Provisions	11,882	-	-	11,882
Total current liabilities	4,809,486	2,688,265	(7,258,491)	239,260
NON-CURRENT LIABILITIES				
Loans from related party	79,463,348	-	(79,463,348)	-
Deferred tax liability	26,003,391	-	-	26,003,391
Provisions	7,609	-	-	7,609
Total non-current liabilities	105,474,348	-	(79,463,348)	26,011,000
TOTAL LIABILITIES	110,283,834	2,688,265	(86,721,839)	26,250,260
NET ASSETS/(LIABILITIES)	26,297,096	-	86,721,839	113,018,935
EQUITY				
Issued capital	1	-	113,000,000	113,000,001
Equity contribution	39,873,309	-	(26,278,161)	13,595,148
Retained (losses)/profits	(13,576,214)	-	-	(13,576,214)
TOTAL EQUITY	26,297,096	-	86,721,839	113,018,935

*Capitalised exploration and evaluation expenditure is supported by management's assessment that ultimately financing of the project is achieved at a rate that results in this amount be recoverable for the shareholders.

**Includes investment in RMR Tech.

(b) Pro forma adjustments

Details of the pro forma adjustments applied to the ASM historical balance sheet as at 31 December 2019 are as follows:

(1) Cash and Working Capital

As part of the Demerger, there is an agreement between Alkane and ASM pursuant to which has provided additional cash to ASM such that ASM's cash balance was \$20,000,000 on 1 April 2020.

(2) Share capitalisation and Intercompany loan

In accordance with the Demerger Deed and Restructure Deed all intercompany loans between Alkane and ASM will be capitalised and/or forgiven as part of the Demerger.

As at 31 December 2019, the intercompany loans are AUD denominated and the current liability is repayable 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, with the amount presented in the 31 December 2019 historical balance sheet of \$79,463,348 representing the discounted value of the loan as at balance date. As part of the restructure the total ASM loans repayable to Alkane as at 31 December 2019 will be capitalised and/or forgiven. The total ASM intercompany loan consists of:

- (A) \$4,570,226 (current liability);
- (B) \$110,000,000 (face value of the non-current liability); and
- (C) \$2,688,265 (the additional cash provided to ASM to bring ASM's cash balance to \$20,000,000 on 1 April 2020, which is provided in Adjustment 1 shown in the ASM pro forma balance sheet).

The amount capitalised to share capital (\$113,000,000) represents the management's valuation of the ASM business with the remainder amount recognised in the equity contribution reserve. The Demerger Deed and Restructure Deed are summarised in Section 8.6.

7.7 ASM historical cash flow statements

Set out below are ASM's historical cash flow statements for the years ended 30 June 2018 and 30 June 2019 and half years ended 31 December 2018 and 31 December 2019.

Table 7.7: ASM historical cash flow statements

	Half-year ended 31 December 2018	Half-year ended 31 December 2019	Year ended 30 June 2018	Year ended 30 June 2019
EBITDA ¹	(578,611)	(142,745)	(352,431)	(328,457)
Other items ²	378,642	127,519	863,294	844,001
Changes in working capital	117,617	548,233	449,947	(660,683)
Operating cash flows before capital expenditure, financing costs and tax	(82,352)	533,007	960,810	(145,139)
Capital expenditure	(5,124,426)	(3,237,191)	(9,559,599)	(6,211,154)
Operating cash flows after net capital expenditure, before financing costs and tax	(5,206,778)	(2,704,184)	(8,598,789)	(6,356,293)
Financing costs	(19,103)	(325)	(42,475)	(20,141)
Net free cash flows ³	(5,225,881)	(2,704,509)	(8,641,264)	(6,376,434)
Net proceeds /(repayments) of borrowings	5,555,574	(6,952,043)	1,285,269	7,027,374
Net increase /(decrease) in cash and cash equivalents	329,693	(9,656,552)	(7,355,996)	650,940
Cash and cash equivalents at beginning of period	26,317,347	26,968,287	33,673,343	26,317,347
Cash and cash equivalents at end of period	26,647,040	17,311,735	26,317,347	26,968,287

1. Represents historical EBITDA from continuing operations.

- Includes the following non-cash items:

	Half-year ended 31 December 2018	Half-year ended 31 December 2019	Year ended 30 June 2018	Year ended 30 June 2019
Interest received (cash)	326,133	214,921	653,116	643,572
Exploration provision or write off	-	-	6,878	444,135
Change in value of biological assets	52,509	(87,402)	203,300	(243,706)
Total other items	378,642	127,519	863,294	844,001

- There are no cash income tax outflows.

7.8 ASM (Post-Demerger) pro forma historical cash flow statements

Set out below are the ASM (Post-Demerger) pro forma cash flows for the years ended 30 June 2018 and 30 June 2019 and half years ended 31 December 2018 and 31 December 2019. The cash flows presented below are net cash flows from operating activities and investing activities.

Table 7.8A: ASM (Post-Demerger) pro forma cash flow statements

	Half-year ended 31 December 2018	Half-year ended 31 December 2019	Year ended 30 June 2018	Year ended 30 June 2019
EBITDA¹	(1,387,735)	(951,870)	(1,970,681)	(1,946,706)
Other items ²	378,642	127,519	863,294	844,001
Changes in working capital	117,617	548,233	449,947	(660,683)
Operating cash flows before capital expenditure, financing costs and tax	(891,476)	(276,118)	(657,440)	(1,763,388)
Capital expenditure	(5,124,426)	(3,237,191)	(9,559,599)	(6,211,155)
Operating cash flows after net capital expenditure, before financing costs and tax	(6,015,902)	(3,513,309)	(10,217,039)	(7,974,543)
Financing costs	(19,103)	(325)	(42,475)	(20,141)
Net free cash flows³	(6,035,005)	(3,513,634)	(10,259,514)	(7,994,684)

- Represents pro forma historical EBITDA from continuing operations as well as additional standalone costs for ASM as a listed entity.
- Includes exploration expensed, movement in biological asset values and other minor non-cash items.
- There are no cash income tax outflows.

As shown in ASM's historical pro forma balance sheet in Table 7.6 and disclosed elsewhere in this Demerger Booklet, Alkane has provided additional cash to ASM such that ASM's cash balance was \$20,000,000 on 1 April 2020.

Reconciliation of ASM historical cash flow statements to ASM (Post-Demerger) pro forma historical cash flow statements

Reconciliations of the ASM historical cash flows to the ASM (Post-Demerger) pro forma historical cash flows for the years ended 30 June 2018 and 30 June 2019 and half years ended 31 December 2018 and 31 December 2019 are shown in the following tables.

Table 7.8B: Reconciliation of ASM historical cash flows to ASM (Post-Demerger) pro forma historical cash flows

	Half-year ended 31 December 2018	Half-year ended 31 December 2019	Year ended 30 June 2018	Year ended 30 June 2019
Historical net free cash flows	(5,225,881)	(2,704,509)	(8,641,264)	(6,376,434)
Pro forma net additional standalone operating costs ¹	(809,125)	(809,125)	(1,618,250)	(1,618,250)
Pro forma net free cash flows	(6,035,005)	(3,513,634)	(10,259,514)	(7,994,684)

- Following implementation of the Demerger, ASM will be a standalone entity listed on the ASX. As a standalone entity, ASM will incur net additional operating costs of \$1,618,250 per annum. These costs include corporate staff, company secretarial costs, ASX fees, insurances, audit, information technology and board fees that have been previously provided for by Alkane.

7.9 Critical accounting judgements, estimates and assumptions

The preparation of the financial information requires management to make judgements, estimates and assumptions that affect the reported amounts in the financial statements. Management also needs to exercise judgement in applying the ASM Group's accounting policies. 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 within the next financial year are discussed below.

(a) Carrying value of non-current assets

Non-current assets included capitalised exploration and evaluation expenditures and mine properties. The consolidated entity has capitalised significant exploration and evaluation expenditure on the basis that, either;

- such expenditure is expected to be recouped through future successful development (or alternatively sale) of the areas of interest concerned; or
- it is not yet possible to assess whether such expenditure will be recouped and activities planned to enable that determination.

7.10 Material changes in financial position since most recent balance sheet

No matters or circumstances have arisen since 31 December 2019 that has significantly affected, or may significantly affect ASM's operations, the results of those operations, or the consolidated entity's state of affairs in future financial years.

7.11 Contingencies and commitments

ASM has contingent liabilities estimated at up to a value of \$3,670,000 for the potential acquisition of parcels of land surrounding the Dubbo Project as at 31 December 2019. The amount to be paid is based upon a multiple of market values and is subject to variation. The landholders have the right to require Australian Strategic Materials (Holdings) Pty Ltd to acquire their property as provided for in the development consent conditions for the Dubbo Project or under agreement with Australian Strategic Materials (Holdings) Pty Ltd.

ASM has commitments estimated up to a value of \$2,980,000 for the acquisition of several parcels of land surrounding the Dubbo Project as at 31 December 2019.

7.12 Shareholder equity

ASM will have approximately 119 million of ordinary shares on issue as at the Demerger Record Date, with an additional 3,000,000 ASM performance rights on issue (refer to Section 6.11 for details).

7.13 Taxation

ASM currently pays income tax as part of Alkane's group taxation arrangements. At the Demerger Implementation Date, ASM will exit Alkane's Australian income tax consolidated group in a manner that achieves a "clear exit" for any past or future tax obligations that may arise in respect of periods that ASM was a member of the Alkane Australian income tax consolidated group. A decision will be made by ASM post-separation from the income tax consolidated group, as to whether to form its own Australian income tax consolidated group. As a standalone group, the effective tax rate of ASM may vary from what it would have been if it had remained part of Alkane.

7.14 Dividend policy

The ASM dividend policy will be determined by the ASM Board at its discretion, having regard to the status of ASM's operations and balance sheet and forward looking strategy. However, it is not anticipated that ASM will be in a position to pay any dividends in the near or medium term.

8. DETAILS OF THE DEMERGER

8.1 Background

As explained elsewhere in this Demerger Booklet, Alkane is an Australian based diversified mining company with a mixture of gold production and exploration and critical materials projects, technology and development assets. The Demerger and listing of ASM on the ASX will allow ASM to focus on its critical materials business units and for Alkane to focus purely on the gold business unit. The Demerger will result in:

- each business unit being able to be valued separately and appropriately as opposed to the value of Alkane as a whole;
- transparency for investors (as gold and specialty metals have different risk profiles, different funding requirements and are in different geographical locations);
- more efficient and focused operating and capital structures for each business unit;
- equity and debt financing able to be developed for each business unit without any impact from the other business unit; and
- investors being able to match their equity risk to the corresponding geography and commodity.

8.2 Implementation of the Demerger

In summary, subject to the satisfaction or waiver of all relevant conditions for implementation of the Demerger (see Section 8.5 below), the Demerger will be effected by means of an in specie distribution of ASM Shares by Alkane to Alkane Shareholders, as follows:

- (a) an in specie distribution of ASM Shares by Alkane to Eligible Shareholders; and
- (b) the ASM Shares that would have otherwise been distributed to Ineligible Foreign Shareholders being transferred to the Sale Agent. The Sale Agent will sell these ASM Shares on the ASX and the net proceeds of sale are to be paid to the Ineligible Foreign Shareholders in accordance with their respective entitlements.

The means by which this in specie distribution is to be achieved is through the Capital Reduction and Demerger Dividend. The Capital Reduction and Demerger Dividend will be satisfied by the distribution and transfer of ASM Shares to the Eligible Shareholders and, in the case of Ineligible Foreign Shareholders, to the Sale Agent in accordance with the Demerger. As a consequence of this, Demerger Participants will not be required to pay cash for ASM Shares they receive under the Demerger.

ASM Shares will be distributed on the basis of one ASM Share for every five Alkane Shares held by an Alkane Shareholder as at the Demerger Record Date (rounded down to the nearest whole number). Alkane Shareholders will not have fractional entitlements to ASM Shares,

and fractional entitlements will not be distributed, under the Demerger. Following implementation of the Demerger, Alkane will donate the net proceeds of sale of any ASM Shares which are not so distributed to a charity to be determined by the Alkane Board. The number of ASM Shares (for which the net proceeds of sale will be donated) will necessarily be less than the number of Alkane Shareholders as at the Demerger Record Date.

ASM will apply for admission to quotation of its ordinary shares to trade on the ASX. Trading in ASM Shares is expected to commence on 30 July 2020 on the ASX.

8.3 Eligible Shareholders

Alkane Shareholders whose addresses are shown in the Alkane Share Register on the Demerger Record Date as being in Australia or New Zealand will be Eligible Shareholders and will be entitled to have ASM Shares distributed to them.

8.4 Ineligible Foreign Shareholders

Alkane Shareholders whose addresses are shown in the Alkane Share Register on the Demerger Record Date as not being in Australia or New Zealand are Ineligible Foreign Shareholders for the purpose of the Demerger. Distribution of ASM Shares to Ineligible Foreign Shareholders under the Demerger is subject to the legal and regulatory requirements in their relevant overseas jurisdictions. Alkane has decided that it is unreasonable to distribute ASM Shares to Ineligible Foreign Shareholders, due to the substantial costs of complying with the legal and regulatory requirements in the various overseas jurisdictions.

As such, ASM Shares to which Ineligible Foreign Shareholders would otherwise be entitled under the Demerger will initially be transferred to the Sale Agent appointed by Alkane and will be sold by the Sale Agent on behalf of the Ineligible Foreign Shareholders as soon as practicable after the date that ASM becomes listed on the ASX. The Sale Agent will sell the relevant ASM Shares on the ASX at such price or prices and on such other terms as the Sale Agent determines in its discretion (and at the risk of the Ineligible Foreign Shareholders), acting in good faith. The share price of ASM Shares after it is listed may be subject to fluctuation (assuming a liquid market exists) and, consequently, the net proceeds of the sale of those ASM Shares to ASM Shareholders may be more or less than the notional dollar value of the Distribution Amount. Following ASX admission to quotation of the ASM Shares, up-to-date information on the share price of ASM Shares will be available on the ASX website (www.asx.com.au) or from your personal stockbroker.

The Sale Agent will account to those Ineligible Foreign Shareholders for their respective proportions of the net proceeds of sale (i.e. less costs or expenses in relation to the sale incurred by the Sale Agent, to the extent these costs or expenses are not paid for by Alkane). The amount of money received by each Ineligible Foreign Shareholder will be calculated on an averaged basis so that all Ineligible Foreign Shareholders receive the same price for each ASM Share sold on their behalf, subject to rounding down to the nearest whole Australian cent. Consequently, the amount received by a Ineligible Foreign Shareholder for each ASM Share may be more or less than the actual price that is received by the Sale Agent for that particular ASM Share.

Any interest earned on the net proceeds of the sale of ASM Shares by the Sale Agent will be retained by Alkane.

The net proceeds of sale will be remitted to the Ineligible Foreign Shareholders at their risk by cheque dispatched by prepaid post to their registered addresses (as at the Demerger Record Date), such cheques being drawn in the name of the respective Ineligible Foreign Shareholders. The net proceeds of sale will be remitted to the Ineligible Foreign Shareholders as soon as practicable and in any event will be sent within eight weeks from the date of the listing of ASM.

8.5 Conditions for Implementation

Implementation of the Demerger is subject to a number of conditions as follows:

- (a) That the Demerger Resolution is duly passed by Alkane Shareholders at the Extraordinary General Meeting

The Demerger will involve Alkane reducing its issued share capital.

Under Alkane's constitution, Alkane may reduce its share capital by reduction of capital in accordance with the Corporations Act. Under section 256B(1) of the Corporations Act, a company may reduce its share capital if the reduction: (i) is fair and reasonable to the company's shareholders as a whole; (ii) does not materially prejudice the company's ability to pay its creditors; and (iii) is approved by shareholders under section 256C of the Corporations Act. Under section 256C(1), a reduction that is an "equal reduction" must be approved by a resolution passed at a general meeting. A reduction is an equal reduction if it relates to ordinary shares only and applies to each holder of ordinary shares in proportion to the number of ordinary shares they hold, and the terms of the reduction are the same for each holder of ordinary shares.

Alkane considers that the reduction involved in the Demerger will be an equal reduction as it will relate to Alkane ordinary shares only and apply to each holder of Alkane ordinary shares in proportion to the number of ordinary shares they hold, and the terms of the reduction are proposed to be the same for each holder of Alkane ordinary shares. Therefore, it is necessary for the Demerger to be approved by Alkane Shareholders by ordinary resolution in accordance with sections 256B(1) and 256C(1) before it can proceed.

The Demerger Resolution, if passed, will approve the proposed reduction of share capital required for the Demerger. The approval will cover the Capital Reduction and, if and to the extent that the Demerger otherwise involves a return of share capital for the purpose of Division 1 of Part 2J.1 of the Corporations Act, the amount of share capital that is to be so returned. The Demerger Dividend may itself involve a return of share capital to the extent there are not sufficient profits from which the entire Demerger Dividend Amount can be appropriated for the purposes of the Corporations

Act. Accordingly, it is thought prudent to ensure that the Demerger Resolution will approve any capital reduction involved in the Demerger.

The Alkane Board intends to determine the Demerger Dividend required for the Demerger. Section 254T(1) of the Corporations Act prohibits Alkane paying a dividend unless:

- (i) Alkane's assets exceed its liabilities immediately before the dividend is declared and the excess is sufficient for the payment of the dividend;
- (ii) the payment of the dividend is fair and reasonable to Alkane Shareholders as a whole; and
- (iii) the payment of the dividend does not materially prejudice Alkane's ability to pay its creditors.

In this regard:

- the Alkane Board expects that Alkane's assets will exceed its liabilities immediately before the dividend is declared and the excess will be sufficient for the payment of the dividend, having regard to Alkane's assets and liabilities as at the date of this Demerger Booklet, and the Alkane Board's expectations in relation to Alkane's trading in the period up to the Demerger Implementation Date;
- in the opinion of the Alkane Board, the Demerger Dividend will be fair and reasonable to all Alkane Shareholders, as it applies to all Alkane Shareholders fairly as between them; and
- the Alkane Board believes Alkane will have sufficient reserves to satisfy the proposed Demerger Dividend (and, as noted above, Capital Reduction) without materially prejudicing Alkane's ability to pay its creditors.

As noted, the Demerger Dividend will be debited to a "demerger reserve" created in Alkane's equity account in its balance sheet on the Demerger Implementation Date (see Section 5.6(a) above for details).

- (b) That ASX approves the admission of ASM to the Official List of ASX and quotation of ASM Shares on ASX is granted, including ASX granting ASM a waiver in respect of ASX Listing Rule 10.14 and confirmations in respect of the application of ASX Listing Rules 1.1 (condition 3), 10.1 and Chapter 11 (as discussed below), subject only to the Demerger becoming effective and such other conditions that may be acceptable to Alkane and ASM

ASM will apply to the ASX for admission to the Official List of ASX and for quotation of ASM Shares on ASX, including applying to ASX for a waiver in respect of ASX Listing Rule 10.14 and confirmations in respect of the application of ASX Listing Rules 1.1 (condition 3), 10.1 and Chapter 11. The Demerger is conditional on the ASX approving the admission of ASM to the Official List, granting permission for quotation of ASM

Shares and granting the relevant waiver and confirmations, subject to any conditions that ASX may reasonably require and which may be acceptable to Alkane and ASM. As noted above, the Demerger is conditional on the ASX:

- (i) confirming that, for the purposes of ASX Listing Rule 1.1, condition 3, ASM may issue an information memorandum that complies with the requirements of ASX Listing Rule 1.4 on the condition that the information memorandum incorporates parts of the Demerger Booklet, rather than a prospectus for the purposes of its admission to the Official List;
 - (ii) confirming that the distribution of ASM Shares to Alkane's substantial shareholder does not require separate shareholder approval, or otherwise a waiver from the obligation to obtain shareholder approval pursuant to ASX Listing Rule 10.1;
 - (iii) granting a waiver of ASX Listing Rule 10.14 such that the grant of ASM performance rights to the Managing Director will not require separate shareholder approval; and
 - (iv) confirming the Demerger does not require shareholder approval under Chapter 11 of the ASX Listing Rules.
- (c) That all regulatory approvals which are necessary or, in the opinion of Alkane or ASM, desirable in connection with the Demerger are obtained

Certain regulatory approvals have been sought from ASIC and ASX – see Section 11.5 of this Demerger Booklet for details.

- (d) That the Alkane Board remains of the view that the Demerger is in the best interests of Alkane as a whole, is fair and reasonable to the Alkane Shareholders as a whole and does not materially prejudice the company's ability to pay its creditors

As at this date of this Demerger Booklet, the Alkane Board is of the view that the Demerger is in the best interests of Alkane as a whole, is fair and reasonable to the company's shareholders as a whole and does not materially prejudice the company's ability to pay its creditors. However, the Alkane Board reserves the right not to proceed with the Demerger should circumstances unexpectedly change.

8.6 Demerger Transaction Documents

The key transaction documents to give effect to the Demerger are summarised below.

- (a) Demerger Deed

The Demerger Deed to be entered into between Alkane and ASM records the agreement of the two parties with respect to the Demerger including the transition and emergence of the Alkane Post-Demerger Group and the ASM Group as independently owned corporate groups, and the ongoing relationship between Alkane and ASM after the implementation of the Demerger. The Demerger Deed includes all terms and conditions necessary to separate the Alkane Post-Demerger Group and

ASM Group following the Demerger Implementation Date such that each party may carry forward the commercial benefits, risks and liabilities of the relevant business independently without shared liability.

The proposed key terms of the Demerger Deed are summarised below:

(i) Demerger Principle

The fundamental underlying principle of the separation of ASM from Alkane under the Demerger is the Demerger Principle, which is described in Section 4.1 above.

(ii) Mutual Indemnity and Claims

Consistent with the Demerger Principle, the Demerger Deed provides that to the extent permitted by law, on and from the Demerger Effective Date, neither party will have any right to make a claim against the other in respect of any liability arising in relation to the Demerger, the operation of the Alkane business (in the case of Alkane) or the operation of the ASM Business or the transfer or extinguishment of any assets or liabilities contemplated by the Demerger (in the case of ASM), unless expressly permitted by the Demerger Deed, the Restructure Deed, the Intercompany Services Agreement, or any other agreement between Alkane and ASM.

Further, each party will indemnify the other for any liability or loss relating directly or indirectly to any claim brought by the other party that is not expressly permitted in the Demerger Deed.

(iii) Rights and Obligations

To give effect to the Demerger Principle, the Demerger Deed provides that Alkane and ASM agree that once the Demerger is implemented, no Alkane Post-Demerger Group Member will have any rights or obligations to any ASM Group Member, and no ASM Group Member will have any rights against, or obligations to any Alkane Post-Demerger Group Member other than in respect of arrangements which the parties have agreed will continue after the implementation of the Demerger.

(iv) Assumption of Liabilities

Consistent with the Demerger Principle, the Demerger Deed provides that:

- (A) Alkane will assume and be responsible for all liabilities relating to the businesses to be conducted by the Alkane Post-Demerger Group after the Demerger Implementation Date and all former Alkane Post-Demerger Group businesses and Alkane indemnifies the ASM Group against all claims and liabilities relating to those businesses; and

- (B) ASM will assume and be responsible for all liabilities relating to the businesses to be conducted by the ASM Group after the Demerger Implementation Date and all former ASM Group businesses and ASM indemnifies the Alkane Post-Demerger Group against all claims and liabilities relating to those businesses,

other than in respect of arrangements which the parties have expressly agreed.

As an exception to the Demerger Principle, the Demerger Deed provides that:

- (A) any Demerger tax liability will be shared by Alkane and ASM equally and each party indemnifies the other in relation to a Demerger tax liability in excess of its responsible share; and
- (B) any Information Claim Liability will be borne by the party to which the Information Claim Liability is related to or connected with, and each party indemnifies the other for a period of 12 months in relation to an Information Claim Liability for which it is responsible, unless that party was aware that the disclosure document giving rise to the Information Claim Liability was misleading or deceptive in a material respect.

(v) Assets

In accordance with the Demerger Principle, Alkane and ASM agree to ensure that the assets (including intellectual property) rights, interests and corporate entities relating to businesses conducted by ASM are held by or transferred to the correct ASM Group Member, and that all assets (including intellectual property), rights, interests and corporate entities relating to businesses conducted by Alkane are held by or transferred to the correct Alkane Post-Demerger Group member.

The Demerger Deed also contains arrangements in relation to the transfer, grant or conveyance of assets required by ASM or Alkane, held by the other party and identified after the Demerger Implementation Date, in accordance with the Demerger Principle.

(vi) Contracts, Consents and Release

In accordance with the Demerger Principle, the Demerger Deed contains arrangements in relation to:

- (A) Alkane using best endeavours to transfer, assign, novate or separate certain contracts to which an Alkane Post-Demerger Group Member is a party as at the Demerger Implementation Date which exclusively relate to businesses conducted by the ASM Group to the ASM Group. Reciprocal obligations apply to ASM for contracts which exclusively relate to businesses conducted by Alkane to which the ASM Group is a party;

- (B) the separation of contracts which are shared by businesses conducted by both the Alkane Post-Demerger Group and the ASM Group and identified after the date of the Demerger Deed;
 - (C) certain consents under contracts that are required as a consequence of the Demerger but may not have been given as at the date of the of the Demerger Deed; and
 - (D) the release of certain guarantees given by Alkane or ASM in relation to an obligation to a Third Party that has not been obtained prior to the date of the Demerger Deed.
- (vii) Litigation

In accordance with the Demerger Principle, on and from Implementation:

- (A) an existing litigation matter that relates to the ASM Group is to remain the responsibility of ASM and be managed by ASM at its cost and Alkane must assign the benefit and novate the burden of any existing ASM litigation matter to ASM;
- (B) an existing litigation matter that relates to the Alkane Post-Demerger Group is to remain the responsibility of Alkane and be managed by Alkane at its cost and ASM must assign the benefit and novate the burden of any existing Alkane litigation matter to Alkane;
- (C) the Alkane Post-Demerger Group will be responsible for all separately agreed, excluded litigation matters where the allegation, claim or prosecution (as the case may be) is made against the Alkane Post-Demerger Group; and
- (D) the ASM Group will be responsible for all separately agreed, excluded litigation matters where the allegation, claim or prosecution (as the case may be) is made against the ASM Group.

The Demerger Deed also contains an agreed regime in relation to:

- (A) the ongoing management of existing Alkane litigation matters;
- (B) the ongoing management of existing ASM litigation matters;
- (C) the management of claims arising before or after the Demerger Implementation Date in connection with the ASM Group, the ASM Businesses, the Alkane Post-Demerger Group or the Alkane businesses, other than existing Alkane litigation matters, existing ASM litigation matters, exception liability claims or excluded litigation matters; and
- (D) the management of excluded litigation matters.

(viii) Employees

The Demerger Deed provides that, from the Demerger Implementation date:

- (A) Alkane will be responsible for, and indemnifies ASM against any liability incurred by ASM that arises out of, all aspects of the employment of Alkane Post-Demerger Group employees; and
- (B) ASM will be responsible for, and indemnifies Alkane against, any liability incurred by Alkane that arises out of, all aspects of the employment of ASM employees.

Alkane and ASM have also agreed that employees transferring from Alkane to ASM will cease employment with Alkane and be directly engaged under employment contracts with ASM.

(ix) Insurance

On and from implementation of the Demerger, Alkane will be solely responsible for obtaining and maintaining insurance for the Alkane Post-Demerger Group and the Alkane business and ASM will be solely responsible for obtaining and maintaining insurance for the ASM Group and the ASM business.

Alkane acknowledges and will use its reasonable endeavours to ensure that, after Implementation, the ASM Group has access to the benefits attaching to those Alkane Post-Demerger Group insurance policies that impact the ASM business, in respect of which premiums have been paid for periods up to and including Implementation and periods beyond Implementation, as the case may be. Alkane will also use reasonable endeavours to ensure that all insurances required for ASM post-Demerger will be procured on behalf of ASM and ASM will be fully insured at the time of the Demerger.

(x) Confidential information

Alkane and ASM must not use the other's confidential information for any purposes other than for the purposes permitted under the Demerger Deed, must store the other's confidential information securely and must not allow any person access to the other's confidential information except to the extent that the disclosure is strictly necessary and is permitted under the Demerger Deed.

(xi) Demerger Costs

As an exception to the Demerger Principle, Alkane and ASM have acknowledged and agreed that Alkane is responsible for the Demerger Costs, and that Alkane indemnifies ASM, each other ASM Group Member and each beneficiary of ASM against all Demerger Costs, being certain costs or expenses

incurred or committed by any Alkane Post-Demerger Group Member or ASM Group Member as a direct consequence of taking actions that are reasonably necessary to plan for, structure, document and implement the Demerger. The Demerger Deed provides that ASM will use all reasonable endeavours to mitigate the Demerger Costs incurred or committed to by an ASM Group Member.

(xii) Dispute resolution

As noted in Section 6.7(a) above, should any matter or dispute arise under the Demerger Deed following implementation of the Demerger, each of Alkane and ASM propose to delegate where appropriate the carriage of all necessary discussions or negotiations to the director(s) on its Board who is not on common to both companies. Immediately after the Demerger Implementation Date, these individuals will be, for Alkane, Mr Lethlean, and for ASM, Mr Woodall.

(b) Intercompany Services Agreement

With an effective date of 1 April 2020, Alkane and ASM (Holdings) entered into the Intercompany Services Agreement (**ISA**) for the provision of professional and IT support services, as well as access to certain office facilities. This agreement will continue to apply post-Demerger until terminated.

The professional services to be provided by Alkane under the ISA involve back office support with some executive assistance, including accounting and finance, commercial and project management services. Access to certain office facilities and IT support services will also be provided to ASM.

The services are required to be provided on a best endeavours basis to substantially the same standard to which those services were supplied in the 12 months prior to the Demerger.

All services provided under the ISA will be charged on a cost recovery basis. The fixed monthly fee for the services is A\$48,500, that will be adjusted annually to account for any escalations to Alkane's costs due to inflation, salary increases, increase office rent or third party charges. Reasonable evidence of any such costs for the revised services fee will be provided to ASM to substantiate the fee. If there is a material change to the scope of the intercompany services requested by ASM, then an adjustment to the fees will need to be agreed by reference to the existing fees and the proportion of change required, substantiated by evidence provided by Alkane.

Either party may terminate the ISA for material breach and ASM may terminate the ISA for convenience (in whole or, for a service, or part of a service) by giving Alkane 30 days' written notice. Alkane may also terminate the ISA for convenience (in whole or, for a service, or part of a service) but must give ASM 365 day's written notice of the intention to terminate.

The ISA does not affect ownership of background intellectual property or vary the terms of the Demerger Deed in relation to intellectual property. Intellectual property in material developed by either party under the ISA is owned by ASM.

Neither party is liable for any loss of profits, indirect or consequential loss in relation to the provision of the services. ASM indemnifies Alkane for any liabilities incurred in relation to a claim against Alkane by a third party in connection with the ISA. Otherwise, each party's liability is capped.

As noted in Section 6.7(a) above, should any matter or dispute arise under the ISA following implementation of the Demerger, each of Alkane and ASM propose to delegate where appropriate the carriage of all necessary discussions or negotiations to the director(s) on its Board who is not on common to both companies. Immediately after the Demerger Implementation Date, these individuals will be, for Alkane, Mr Lethlean, and for ASM, Mr Woodall.

(c) **Restructure Deed**

The Restructure Deed to be entered into between Alkane and ASM deals with issues arising in connection with the implementation of the Demerger and the multiple intra group restructuring steps that must be implemented prior to the Demerger with respect to various existing intercompany loans within the Alkane Group.

As ASM is a borrower under a number of existing intercompany loans with Alkane, the Restructure Deed includes all terms and conditions necessary to capitalise a portion of the existing intercompany loans prior to ASM's exit from Alkane's Australian income tax consolidated group on the Demerger Implementation Date.

The Restructure Deed provides that Alkane will subscribe for, and be issued, new ASM Shares shortly before the Demerger is implemented. The ASM Shares issued to Alkane would be distributed to Alkane Shareholders as part of the Demerger. These new ASM Shares will rank pari passu with all other ASM Shares on issue at the time.

Subject to the completion of the Restructure Deed, it is contemplated in the Restructure Deed that Alkane and ASM would enter into a deed of forgiveness to forgive such portion of intercompany loans that will not be capitalised prior to implementation of the Demerger.

Before the Demerger is implemented, the ASM Shares on issue will be consolidated or subdivided as appropriate so as to ensure that all the ASM Shares on issue at the time of the Demerger can be distributed on the basis of the ratio of one ASM Share for every five Alkane Shares held by Demerger Participants, as described in this Demerger Booklet.

8.7 **Deeds of Cross Guarantee**

Alkane and certain members of the Alkane Post-Demerger Group intend to enter into a deed of cross guarantee (Alkane Cross Guarantee) in accordance with ASIC Corporations (Wholly-

owned Companies) Instrument 2016/785, prior to 30 June 2020. ASM and its subsidiaries will not be a party to the Alkane Cross Guarantee but also intend to enter into a separate deed of cross guarantee (ASM Cross Guarantee) in accordance with ASIC Corporations (Wholly-owned Companies) Instrument 2016/785, prior to 30 June 2020.

Relevantly, there is no cross guarantee between any member of the Alkane Post-Demerger Group and any member of the ASM Group and no intention to enter into such an arrangement. Therefore, the Alkane Cross Guarantee will only apply to members of the Alkane Post-Demerger Group and the ASM Cross Guarantee will only apply to members of the ASM Group.

9. AUSTRALIAN TAXATION CONSEQUENCES FOR AUSTRALIAN TAX RESIDENT ALKANE SHAREHOLDERS AND ALKANE

9.1 ATO draft class ruling

Whilst Alkane considers the proposed Demerger should qualify for capital gains tax (**CGT**) and dividend demerger tax relief, it has applied to the Commissioner of Taxation (**Commissioner**) for a class ruling to provide confirmation of this view, together with confirmation that the Commissioner will not make a determination under section 45B of the Income Tax Assessment Act 1936 (**ITAA 1936**).

As Alkane considers the Demerger would not be value-accretive for Alkane Shareholders in the absence of demerger tax relief or a determination being made applying section 45B of the ITAA 1936, receipt of a draft class ruling from the ATO was one of the conditions to the implementation of the Demerger.

Alkane has received a draft class ruling from the Australian Commissioner of Taxation which is to the satisfaction of Alkane. It is not intended that the draft class ruling is relied upon as the Australian Commissioner of Taxation is not bound to this draft ruling, nor has it been formally approved by the Commissioner.

The final class ruling will only be issued by the Commissioner after the Demerger Implementation Date. This Section 9 has been prepared on the basis that the class ruling from the Commissioner is received. The Australian income tax outcomes will be different if the final class ruling is contrary to the position outlined in the draft class ruling – refer to Section 9.9 below for further details if the Demerger tax relief is not available.

9.2 Scope of commentary and disclosure

The following is a general summary of the Australian taxation consequences for Eligible Shareholders who receive, as a Demerger Distribution, ASM Shares. The taxation commentary below is applicable to Australian residents who hold their Alkane Shares on capital account.

The comments do not apply to Eligible Shareholders who:

- are not a resident for Australian income tax purposes;
- are exempt from Australian income tax;
- are under a legal disability;
- hold their Alkane Shares as revenue assets or trading stock (which will generally be the case if you are a bank, insurance company or carry on a business of share trading with a view to make a profit);
- acquired their Alkane Shares for the purpose of resale at a profit;

- are subject to the 'TOFA provisions' in Division 230 of *the Income Tax Assessment Act 1997 (Cth) (ITAA 1997)* in relation to gains and losses on their Alkane Shares;
- hold their Alkane Shares as an asset in a business of the Eligible Shareholder that is carried on through a “permanent establishment” in Australia;
- are subject to the 'Investment Manager Regime' under Subdivision 842-I of the ITAA 1997 in respect of their Alkane Shares; or
- acquired their Alkane Shares under any employee share scheme.

The commentary below does not constitute tax advice and is not a complete analysis of all taxation implications relevant to the proposed Demerger. Alkane Shareholders should obtain independent tax advice regarding the income tax and capital gains tax implications specific to their circumstances.

Alkane Shareholders who hold their Alkane Shares on revenue account (for example, Alkane Shareholders who are share traders and certain institutional investors), and Alkane Shareholders who are not residents of Australia for income tax purposes, should seek independent taxation advice. Section 9.11 provides information relating to the taxation implications for ASM Shareholders after the Demerger.

The commentary below has been prepared based on the taxation laws, regulations, rulings and administrative guidance and judicial interpretations as at the date of this Demerger Booklet. It is important to note the ultimate interpretation of taxation law rests with the courts and that the law, and the way the revenue authorities seek to administer the law, may change over time. Accordingly, the commentary below represents considered views of existing law based upon generally accepted interpretations of that law.

This does not constitute tax advice.

9.3 Demerger tax relief overview

Broadly, demerger tax relief ensures that any CGT implications arising as a consequence of the Demerger Distribution may be disregarded, and that the dividend component (if any) of a Demerger Distribution is not taxed in the hands of Alkane Shareholders.

Alkane Shareholders can choose demerger tax relief in relation to the CGT aspects of the Demerger with such a decision being evidenced by way of how the shareholder prepares their income tax return.

9.4 CGT consequences where demerger tax relief is chosen

(a) Capital gain is disregarded

The receipt of the Capital Reduction component of the Demerger Distribution will give rise to a CGT event for Alkane Shareholders, occurring at the time Alkane completes the Capital Reduction.

Any capital gain arising from the CGT event on an Alkane Shareholder's shares under the Demerger will be disregarded.

(b) CGT cost base on Alkane Shares and ASM Shares

Alkane Shareholders will need to apportion the first element of the CGT cost base of their Alkane Shares between those Alkane Shares and the new ASM Shares on a basis which takes into account the market values of the Alkane Shares and the ASM Shares (or a reasonable approximation of these market values) just after the Demerger.

Further information in relation to the apportionment of costs bases will be provided by Alkane subsequent to the Demerger being implemented.

(c) Time of acquisition of ASM Shares

Whilst generally the ASM Shares are taken to have been acquired on the Demerger Date, for the purposes of determining future eligibility for the CGT discount on a subsequent sale of ASM Shares, the ASM Shares will be taken to have been acquired on the same date as the corresponding Alkane Shares.

9.5 CGT consequences where demerger roll-over relief is not chosen

(a) Capital gain is not disregarded

Any capital gain arising from the receipt of the Capital Reduction under the Demerger will not be disregarded.

Alkane Shareholders may be entitled to claim the CGT discount and should seek appropriate tax advice to determine such an entitlement in their specific circumstances.

If the capital component of the Demerger Distribution (the Capital Reduction) does not exceed the CGT cost base of their Alkane Shares, no capital gain will arise.

Alkane Shareholders will not make a capital loss as a result of the Capital Reduction under the Demerger.

(b) CGT cost base in Alkane Shares and ASM Shares

Alkane Shareholders will need to apportion the first element of the CGT cost base in their Alkane Shares between those Alkane Shares and ASM Shares received under the Demerger, adopting the method of apportionment being that applicable for Alkane Shareholders who choose to obtain demerger roll-over relief (as discussed in Section 9.4(b)).

(c) Time of acquisition of ASM Shares

Whilst generally, the ASM Shares are taken to have been acquired on the Demerger Date, for the purposes of determining eligibility to the CGT discount on a subsequent

sale of ASM Shares, the ASM Shares will be taken to have been acquired on the same date as the corresponding Alkane Shares.

9.6 **Taxation of Demerger Dividend**

The Demerger Dividend will not be assessable income for Australian tax resident Alkane Shareholders (subject to commentary on section 45B in Section 9.7 below).

9.7 **Application of section 45B tax integrity measures**

Section 45B of the ITAA 1936 is an integrity measure which can be applied if the Commissioner considers the demerger not to be a genuine demerger or the capital reduction/dividend components of the Demerger Distribution do not reflect the circumstances of the Demerger.

Whilst having regard to the circumstances of the Demerger, Alkane does not consider the Commissioner should apply section 45B to the proposed Demerger, a class ruling has been sought to confirm the Commissioner will not make any Determination(s) pursuant to section 45B.

Should the Commissioner make a determination pursuant to section 45B in respect of the Demerger, all or part of the Capital Reduction will be treated as an unfranked dividend, or the Demerger Dividend will lose its exempt character.

It follows these amounts will be treated as assessable income for Australian tax resident Alkane Shareholders.

9.8 **Taxation Implications for Alkane**

The transfer of ASM Shares from Alkane to the Alkane Shareholders is not expected to have any material adverse tax implications for Alkane.

9.9 **Tax consequences for Alkane Shareholders if Demerger tax relief is not available**

If the Commissioner rules in the final class ruling that demerger tax relief is not available, contrary to the position outlined in the draft class ruling, the following broad tax consequences will arise for Alkane Shareholders;

- (a) the Demerger Dividend will constitute assessable income;
- (b) they will make a capital gain under CGT event G1 to the extent (if any) that the Capital Reduction Amount received by the Alkane Shareholder exceeds the cost base of their Alkane Shares. No capital loss will arise if their reduced cost base exceeds the Capital Reduction Amount;
- (c) the first element tax cost base and reduced cost base of the ASM Shares they receive will be equal to the market value of ASM Shares on the Demerger Implementation Date; and

- (d) the acquisition date of the ASM Shares will be the Demerger Implementation Date for the purposes of determining eligibility for the CGT discount.

9.10 **GST implications**

Being an input taxed supply, no GST is required to be imposed by Alkane on the in specie distribution of ASM Shares. It follows there should be no entitlement to input tax credit claims by Alkane Shareholders on ASM Shares acquired under the Demerger, as no GST is imposed by Alkane (subject to the Financial Acquisition Threshold).

9.11 **Taxation implications for ASM Shareholders after the Demerger**

(a) **General**

The comments in this Section 9.11 provide a general outline of Australian tax issues for Australian tax resident ASM Shareholders who hold their ASM Shares on capital account for Australian income tax purposes.

As above, this summary does not apply to certain ASM Shareholders, in particular those ASM Shareholders who hold ASM Shares on revenue account, carry on a business of trading in shares or are subject to the Taxation of Financial Arrangements provisions.

The commentary below does not constitute tax advice and is not a complete analysis of all taxation implications relevant to holding and disposing of ASM Shares. ASM Shareholders should obtain independent tax advice regarding the income tax and capital gains tax implications specific to their circumstances.

The commentary below has been prepared based on the taxation laws, regulations, rulings and administrative guidance and judicial interpretations as at the date of this Demerger Booklet. It is important to note the ultimate interpretation of taxation law rests with the courts and that the law, and the way the revenue authorities seek to administer the law, may change over time. Accordingly, the commentary below represents considered views of existing law based upon generally accepted interpretations of that law.

(b) **Dividends**

ASM Shareholders will be required to include dividends received on ASM Shares in their assessable income in the year the dividends are paid or credited.

To the extent the dividends are franked, ASM Shareholders should also include in their assessable income an amount equal to the franking credits attaching to the dividend.

ASM Shareholders (including individuals) should be entitled to a tax offset equal to the franking credits attached to the dividend so long as they are a 'qualified person' (broadly meaning they have held the ASM Shares 'at risk' for a period of more than 45 days within a period beginning on the day after the date on which the ASM

Shareholder acquired the ASM Shares and ending on the 45th day after the day on which the ASM Shares became 'ex-dividend'. Individuals can also be a 'qualified person' where their total franking credit entitlement in the relevant income year is below \$5,000.

In some cases, an amount of a tax offset not applied against an ASM Shareholder's tax liability can be refunded to that shareholder. This depends on the particular circumstances of the ASM Shareholder, including their entity type.

ASM Shareholders who are companies (not holding ASM Shares in their capacity as a trustee) will not be entitled to a tax refund of excess credits; rather the excess may be converted to a tax loss which can be carried forward to future years (subject to the ASM Shareholder satisfying certain loss carry forward rules).

ASM Shareholders who are partnerships, complying superannuation funds or trusts should obtain their own advice on the tax treatment of dividends received from ASM and any franking credits attached.

(c) Capital gains tax

This section assumes that demerger tax relief is chosen by an ASM Shareholder.

ASM Shareholders who hold their ASM Shares on capital account will need to consider the Australian CGT implications arising from holding and disposing of the shares.

A capital gain will arise where the capital proceeds on disposal of ASM Shares exceed the cost base of the share. Broadly the cost base will comprise of the amount referred to in Section 9.4(b) above plus any non-deductible transaction costs incurred in relation to the acquisition or disposal of the ASM Shares.

A CGT discount may be applied against the net capital gain (after first deducting any available capital losses) where the ASM Shareholder is an individual, complying superannuation entity or trustee, and the corresponding Alkane Shares have been held for more than 12 months prior to the CGT event.

A capital loss will be realised where the reduced cost base exceeds the capital proceeds from disposal. Capital losses may only be offset against capital gains realised by the ASM Shareholder in the same or future income years, subject to certain loss recoupment tests being satisfied. Capital losses cannot be offset against other forms of assessable income.

(d) Tax File Number withholding tax

ASM Shareholders can choose to quote their tax file number (**TFN**), ABN or relevant exemption from withholding tax with respect to dividends.

In the event ASM is not so notified, tax may be required to be withheld by ASM at the maximum marginal rate plus the Medicare levy (currently 47%) from the cash amount

of the unfranked portion (if any) of the dividends, and remit the withheld amount to the ATO. No amount is required to be withheld by ASM in respect of fully franked dividends.

ASM Shareholders will be able to claim a tax credit/rebate (as applicable) in respect of any tax withheld on the dividends in their individual income tax returns.

ASM Shareholders who hold ASM Shares as part of an enterprise may quote their ABN instead of their TFN.

This does not constitute tax advice.

9.12 **State duty liabilities**

There are no material state duty implications arising from the Demerger.

9.13 **Australian taxation implications for Ineligible Foreign Shareholders**

Ineligible Foreign Shareholders are strongly encouraged to obtain Australian taxation advice in relation to their disposal of ASM Shares by the Sale Agent, which takes into account their individual circumstances.

The following general comment may not apply where the Ineligible Foreign Shareholder holds a non-portfolio shareholding interest in ASM (in excess of 10% - taking into accounts shares held by associates) or the ASM shareholding is an asset of an Australian Permanent Establishment ('PE') conducted by the Ineligible Foreign Shareholder, that have been used at any time in a business carried on by that PE.

In general, Ineligible Foreign Shareholders will not be subject to Australian taxation on capital gains made on the disposal of ASM shares by the Sale Agent.

10. RISK FACTORS - INVESTING IN ASM

10.1 Overview

There are a number of risk factors specific to ASM and of a more general nature which may, either individually or in combination, affect the future operating and financial performance, or financial position of ASM or the value of ASM Shares. The risks and uncertainties described in this section of this Demerger Booklet represent those risks which the ASM Directors consider to be the most significant as at the date of this Demerger Booklet. However, these risks and uncertainties are not the only ones facing ASM and the ASM businesses or relevant to an investment in ASM Shares. Additional risks and uncertainties not presently known to the ASM Directors, or that the ASM Directors currently consider to be immaterial, could also materially and adversely affect any or all of the business, results of operations, financial position or prospects of ASM. In such cases, the market price of the ASM Shares could decline and investors may lose all or part of their investment. Prospective investors in ASM Shares should consider the risks and uncertainties carefully.

Many of the risks to which ASM will be exposed are similar to the risks to which Alkane is exposed to, while others arise or are increased as a result of the Demerger and the ability to take mitigating action may be more limited. Some of these risks may be mitigated by appropriate controls, systems and other actions as further described below, but others will be outside the control of ASM and may not be able to be mitigated. There is no guarantee or assurance that any mitigation measures that ASM takes will succeed.

Investors and prospective investors should satisfy themselves that they have a proper understanding of the risks of investing in ASM Shares and the information in this Demerger Booklet (including its Annexures), and whether an investment in ASM Shares is suitable having regard to their own respective investment objectives, financial situation and particular needs (including financial and tax issues). Potential investors should consider that an investment in ASM Shares is speculative and they should consult with their professional advisers. Anyone who is in any doubt as to whether to invest in ASM Shares or who does not understand the information in this Demerger Booklet should seek professional advice from their stockbroker, lawyer, accountant or other independent and qualified professional adviser.

10.2 Risks specific to ASM

(a) Liquidity

There may be relatively few buyers or sellers of ASM Shares on ASX at any given time. This may affect the volatility of the market price of the securities and the prevailing market price at which ASM Shareholders hold their ASM Shares. This may result in ASM Shareholders receiving a market price for their ASM Shares that is less or more than the value attributed to them on the Demerger Effective Date.

(b) Capital requirements

ASM activities, including the development of the Dubbo Project will require substantial expenditure. There can be no guarantees that the funds held by ASM will be sufficient to successfully achieve all of the objectives of ASM's business strategy. Any equity financing will dilute shareholdings and debt financing, if available, may involve restrictions on financing and operating activities. If ASM is unable to obtain additional financing as needed, it may be required to scale back its development and exploration programs. In addition, ASM's ability to continue as a going concern may be diminished. There is no guarantee that ASM will be able to secure any additional funding or be able to secure funding on terms favourable to ASM. Such circumstances would adversely affect ASM and its activities.

(c) Environment

ASM's projects are subject to laws and regulations in relation to environmental matters. As a result, there is the risk that ASM may incur liability under these laws and regulations. ASM proposes to comply with applicable laws and regulations and conduct its programs in a responsible manner with regard to the environment.

(d) 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.

(e) Insurance

ASM intends to adequately insure its projects in accordance with industry practice and applicable laws in the jurisdictions where it operates. However, in certain circumstances ASM may not be able to obtain insurance or the insurance that it can obtain may not be of a sufficient nature or level to provide adequate insurance cover. As such, the occurrence of an event that is not covered by insurance could have a material adverse effect on ASM.

(f) Economic

Factors such as inflation, currency fluctuations, interest rates, supply and demand, industrial disruption, government policy and legislation have an impact on operating costs, commodity prices, and the parameters in which ASM operates.

(g) Government policy and legislative change

Capacity to explore and mine, as well as industry profitability generally, can be affected by changes in government policy that are beyond the control of ASM and which may materially adversely impact ASM and the value of ASM Shares. ASM's activities in the mining industry are subject to various legislation, regulations and

governmental approvals. The introduction of any new legislation, be it amendments, the application of developments in existing common law or policies or the interpretation of those laws or policies could have a material adverse effect on ASM. Changes in government regulations may adversely affect the financial performance or the current and proposed operations generally of ASM and the value of ASM Shares.

In addition, ASM's projects may require various licences, regulatory renewals or approvals by government for their operations and accordingly must comply with those approvals, applicable laws, regulations, guidelines and policies.

Specifically, ASM may require licenses, renewals and approvals in relation to environmental matters, exploration, development and production. There is a risk that ASM may not obtain, or may be delayed in obtaining the necessary licenses, renewals and approvals in relation to their operations. This may affect the timing and scope of ASM's operations. The loss of granted tenements or the delay in obtaining lease renewals may have a material adverse effect on ASM.

(h) 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.

(i) 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.

(j) Commodity price

ASM's future prospects and the ASM 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 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.

(k) Joint venture partners

Financial failure or default by any participant in a joint venture to which ASM is a party may have a materially adverse impact on ASM insofar as it may have to bear that share

of the joint venture costs which would otherwise have been borne by the relevant participant in the joint venture.

(l) 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 *National Parks and Wildlife Act 1974* (NSW), NSW major projects legislation or 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.

(m) Exploration risks

Exploration is a high risk activity that requires large amounts of expenditure over extended periods of time. ASM's exploration activities will 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.

(n) Resource estimates

Resource 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, resource 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 estimates may change. Accordingly, the actual resources may materially differ from these estimates and assumptions and no assurances can be given that the resource 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 ASM Shares.

(o) Exchange rate fluctuations

International prices of most commodities are denominated in United States dollars, whereas the income and expenditure of ASM, whilst operating on Australian projects, will be in Australian currency, exposing ASM to the fluctuations and volatility of the rate of exchange between the United States dollar and the Australian dollar, subject to any currency hedging that might be undertaken. Exchange rate fluctuations may also impact the prices ASM may pay for goods and services required to develop its projects.

(p) Political risk

ASM's main project is the Dubbo Project located in Australia. ASM also operates in South Korea through its investment in RMR Tech. 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.

(q) 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.

10.3 General risk factors

(a) General economic conditions

ASM's operating performance and financial performance is influenced by a variety of general economic and business conditions including the level of inflation, interest rates, exchange rates and government fiscal, monetary and regulatory policies. Prolonged deterioration in general economic conditions, including an increase in interest rates or decrease in consumer and business demand, could have an adverse impact on the ASM business, the results of ASM's operations or ASM's financial conditions and performance.

(b) Changes in tax rules or their interpretation

Changes in tax law (including income tax, goods and services taxes and stamp duties), or changes in the way taxation laws are interpreted may impact the tax liabilities of ASM or the tax treatment of an ASM Shareholder's investment. In particular, both the

level and basis of taxation may change. In addition, an investment in ASM Shares involves tax considerations which may differ for each ASM Shareholder. Each prospective ASM Shareholder is encouraged to seek professional tax advice in connection with any investment in ASM.

(c) Accounting standards

Australian Accounting Standards are issued by the Australian Accounting Standards Board and are not within the control of ASM and the ASM Directors. Any changes to the accounting standards or to the interpretation of those standards may have an adverse effect on the reported financial performance or financial position of ASM.

(d) Force majeure events

Events may occur within or outside ASM's key markets that could impact upon the global economies and the operations of ASM. The events include, but are not limited, to acts of terrorism, an outbreak of international hostilities, fires, floods, earthquakes, labour strikes, civil wars, natural disasters, outbreaks of disease or other natural or man-made events or occurrences that can have an adverse effect on the demand for ASM's product offering and services and its ability to conduct business.

(e) Global health risks or pandemics

Global health risks or pandemics or the potential for these events could have a negative impact on ASM. Such events could adversely affect consumer behaviour and business activity levels, and precipitate sudden significant changes in regional and global economic conditions and cycles. They could also pose significant risks to the ASM's stores, distribution centres and supply chains, whether they are controlled by ASM or by third-party providers. By disrupting store operations, provision of services and logistics, these events could make it difficult or in some cases impossible for ASM to deliver products and services to its customers. As a result, the operations of ASM could be adversely affected by such events. ASM only has limited insurance coverage for losses and interruptions caused by global health risks or pandemics.

(f) Other risks

The above risks are not an exhaustive list of the risks. The risks outlined above and other risks may materially affect the future performance of ASM. Accordingly, no assurances or guarantees of future performance, profitability, distributions, or returns of capital are given by ASM.

11.ADDITIONAL INFORMATION

11.1 Interests of Directors

As at the date of this Demerger Booklet:

- (a) no Alkane Director has any interest in any ASM Shares or other securities issued by ASM;
- (b) except as disclosed in the table below no Alkane Director has any interest in any Alkane Shares, Alkane Performance Rights or other securities issued by Alkane; and
- (c) the number of ASM Shares that each Alkane Director would be distributed under the Demerger (assuming no change in the number of Alkane Shares in which he has an interest before the Demerger Record Date) is as disclosed in the table below.

Director	Number and percentage ¹ of Alkane Shares in which the Director has an interest (as at the date of this Demerger Booklet)	Number and percentage of Alkane Performance Rights in which the Director has an interest (as the date of this Demerger Booklet)	Number and percentage of Alkane Shares in which the Director would have an interest if all his Alkane Performance Rights vested	Number and percentage of Alkane Shares in which the Director would have an interest assuming the treatment of the Alkane Performance Rights in accordance with Section 4.7 of this Demerger Booklet	Number and percentage of ASM Shares to be distributed to the Director under the Demerger	Number and percentage of ASM Shares to be distributed to the Director under the Demerger assuming the treatment of the Alkane Performance Rights in accordance with Section 4.7 of this Demerger Booklet
Ian Gandel ²	136,021,143 Alkane Shares (23.5%)	0 Alkane Performance Rights	136,021,143 Alkane Shares (22.6%)	136,021,143 Alkane Shares (22.9%)	27,204,228 ASM Shares (23.5%)	27,204,228 ASM Shares (22.9%)
Nicholas Earner	165,000 Alkane Shares (0.0%)	12,245,765 Alkane Performance Rights	12,410,765 Alkane Shares (2.1%)	8,627,496 Alkane Shares (1.4%)	33,000 ASM Shares (0.0%)	1,725,499 ASM Shares (1.4%)
David Ian Chalmers	4,671,140 Alkane Shares (0.8%)	1,475,804 Alkane Performance Rights	6,146,944 Alkane Shares (1.0%)	5,687,885 Alkane Shares (1.0%)	934,228 ASM Shares (0.8%)	1,137,577 ASM Shares (1.0%)
Anthony Lethlean	720,086 Alkane Shares (0.1%)	0 Alkane Performance Rights	720,086 Alkane Shares (0.1%)	720,086 Alkane Shares (0.1%)	144,017 ASM Shares (0.1%)	144,017 ASM Shares (0.1%)
Gavin Smith	331,875 Alkane Shares (0.1%)	0 Alkane Performance Rights	331,875 Alkane Shares (0.1%)	331,875 Alkane Shares (0.1%)	66,375 ASM Shares (0.1%)	66,375 ASM Shares (0.1%)

¹ Rounded to a single decimal place.

² Mr Gandel holds his relevant interest in Alkane Shares through his private investment vehicle, Abbotsleigh Pty Ltd.

For Mr Woodall (who is a director of ASM but not a director of Alkane), the above details are set out in the table below:

	Number and percentage ³ of Alkane Shares in which Mr Woodall has an interest (as at the date of this Demerger Booklet)	Number and percentage of Alkane Performance Rights in which Mr Woodall has an interest (as the date of this Demerger Booklet)	Number and percentage of Alkane Shares in which Mr Woodall would have an interest if all his Alkane Performance Rights vested	Number and percentage of Alkane Shares in which Mr Woodall would have an interest assuming the treatment of the Alkane Performance Rights in accordance with Section 4.7 of this Demerger Booklet	Number and percentage of ASM Shares to be distributed to Mr Woodall under the Demerger	Number and percentage of ASM Shares to be distributed to Mr Woodall under the Demerger assuming the treatment of the Alkane Performance Rights in accordance with Section 4.7 of this Demerger Booklet
Mr Woodall	35,000 Alkane Shares (0.0%)	0 Alkane Performance Rights	35,000 Alkane Shares (0.0%)	35,000 Alkane Shares (0.0%)	7,000 ASM Shares (0.0%)	7,000 ASM Shares (0.0%)

11.2 Benefits and agreements with Alkane directors and executives

Except as disclosed in this Demerger Booklet:

- (a) there is no agreement or arrangement made between any Alkane Director and any other person in connection with or conditional on the Demerger;
- (b) no Alkane Director has been paid or given, or is entitled to be paid or given, any sum or benefit to induce them to become a director of ASM;
- (c) no director or proposed director of ASM, and no firm in which a director or proposed director of ASM is a partner or was a partner in the last two years, holds, or held at any time during the last two years before the date of this Demerger Booklet, any interest in:
 - (i) the formation or promotion of ASM;
 - (ii) any property acquired or proposed to be acquired by ASM in connection with its formation or promotion or the Demerger; or
 - (iii) the Demerger,

and no amounts (whether in cash or securities or otherwise) have been paid or agreed to be paid, and no one has given or agreed to give a benefit, to any director or proposed director of ASM either to induce them to become, or to qualify them as, a director of ASM, or otherwise for services rendered by them in connection with the formation or promotion of ASM or the Demerger; and
- (d) it is not proposed that any payment or other benefit will be made or given to any Alkane Director, or secretary or executive officer of Alkane, or any body corporate

³ Rounded to a single decimal place.

related to Alkane (including ASM), as compensation for loss of, or as consideration for or in connection with, his or her retirement from office as director, secretary or executive officer of Alkane or a body corporate connected with Alkane as a consequence of or in connection with the Demerger.

11.3 Rights attaching to ASM Shares and ASM Constitution

A description of material rights attaching to ASM Shares is set out below. It is noted that the ASM Constitution is in substantially the same form as the constitution of Alkane and, accordingly, the rights attaching to ASM Shares will not materially differ from the rights attaching to Alkane Shares.

This summary is not exhaustive and does not constitute a definitive statement of the rights and liabilities of ASM Shares. The summary is qualified by the full terms of the ASM Constitution. These rights and liabilities can involve complex legal questions of law arising from an interaction of the ASM Constitution with statute, ASX Listing Rules and common law requirements.

(a) Voting rights

A resolution put to the vote at a general meeting of ASM Shareholders must be decided on a show of hands unless a poll is demanded. If a resolution is put to vote on a show of hands, every ASM Shareholder present in person, or by proxy, attorney or representative to a general meeting of ASM will have one vote (unless a ASM Shareholder has appointed more than one proxy). Upon demand for a poll (in accordance with the ASM Constitution), every ASM Shareholder present in person, or by proxy, attorney or representative has one vote for every ASM Share held by them (with adjusted voting rights for partly paid shares).

(b) Meeting of members

Each ASM Shareholder is entitled to receive notice of, attend and vote at general meetings of ASM and receive all notices, accounts and other documents required to be sent to ASM Shareholders under the ASM Constitution, Corporations Act, ASX Listing Rules and ASX Settlement Operating Rules. ASM must give at least 28 days' written notice of a general meeting.

(c) Dividends

The ASM Board may resolve to pay any dividend (including an interim dividend, special dividend or final dividend) it thinks appropriate and fix the time for payment. A debt arises only when the time fixed for payment arises and a decision to pay a dividend may be revoked by the ASM Board at any time before then. The decision to pay a dividend may be revoked by the Board at any time before then.

Subject to the Corporations Act, ASM may pay a dividend on one class of shares to the exclusion of another class. Each share of a class on which the Board resolves to pay a dividend carries the right to participate in the dividend in the same proportion that

the amount for the time being paid on the share bears to the total issue price of the share.

(d) Dividend reinvestment plan

The ASM Constitution authorises the Board to adopt and implement, at its discretion, a re-investment plan (under which ASM Shareholders are given the option to elect that any dividend or other cash payment in respect of a share or convertible security be retained by ASM and applied in payment for fully paid shares issued under the plan).

(e) Transfer of ASM Shares

Subject to the ASM Constitution and any restrictions attaching to an ASM Share, an ASM Shareholder may transfer an ASM Share by any means permitted by the Corporations Act or by law. The ASM Board may request ASX Settlement to apply a holding lock to prevent a transfer, or may decline to register an instrument to transfer in accordance with the Corporations Act or the ASX Listing Rules.

(f) Issue of further shares

Subject to the Constitution, ASX Listing Rules and the Corporations Act, the ASM Board may issue, cancel or grant options over, or otherwise dispose of, ASM Shares on such terms as the ASM Board decides.

(g) Variation of rights

Immediately after implementation of the Demerger, the only class of shares on issue in ASM will be ASM Shares. The procedure set out in the ASM Constitution must be followed for any variation of rights attached to the ASM Shares subject to the Corporations Act and the terms of issue of a class of shares. The rights attached to a class of shares in ASM may be varied by:

- (i) the holders of at least 75% of the issued shares in the class consenting in writing; or
- (ii) a special resolution passed at a separate meeting of the holders of shares in that class.

(h) Preference shares

ASM may issue preference shares (including preference shares that are liable to be redeemed or converted). The rights attaching to any preference shares must include the rights set out in or determined in accordance with the ASM Constitution unless other rights have been approved by special resolution of ASM.

(i) Unmarketable parcels

In accordance with the ASX Listing Rules, the ASM Board may sell ASM Shares that constitute less than a marketable parcel by following the procedures set out in the ASM Constitution, unless a takeover is announced after the ASM Board gives a notice pursuant to the ASM Constitution. A marketable parcel of ASM Shares is defined in the ASX Listing Rules and is generally a holding of ASM Shares with a market value of not less than \$500.

(j) Winding up

Subject to the ASM Constitution, the Corporations Act and any preferential rights attaching to any class or classes of ASM Shares, ASM Shareholders will be entitled on a winding up to a share in any surplus assets of ASM in proportion to the number of ASM Shares they hold (a partly paid share is counted as a fraction of a fully paid share).

If ASM is wound up, the liquidator may, with the sanction of a special resolution of ASM shareholders, divide the whole or part of ASM's property among ASM Shareholders and decide how the division is to be carried out as between ASM Shareholders or different classes of ASM Shareholders. The liquidator cannot compel a member to accept marketable securities in respect of which there is a liability as part of a distribution of assets of ASM.

(k) Alteration of share capital

In accordance with the ASM Constitution, ASX Listing Rules and Corporations Act, ASM may capitalise profits, reserves or other amounts available for distribution to ASM Shareholders. ASM Shareholders are entitled to participate in a capital distribution in the same proportions in which they are entitled to participate in dividends by following the procedures set out in the ASM Constitution.

(l) Proportional takeover provisions

The ASM Constitution requires ASM Shareholder approval in relation to any proportional takeover bid. An approving resolution is implemented by following the procedure set out in the ASM Constitution. Subject to the Corporations Act, these provisions will cease to apply unless they are renewed by ASM Shareholders passing a special resolution by the third anniversary of either the date that those rules were adopted or the date those rules were last renewed.

(m) Directors – appointment and removal

Under the Constitution, the ASM Board must have at least three and not more than eight ASM Directors. The ASM Board may, from time to time, increase the maximum number of ASM Directors but the maximum applying at any time cannot be reduced unless ASM Shareholders pass a resolution varying that maximum number at a general meeting. ASM Directors are elected or re-elected at general meetings of ASM.

No ASM Director (excluding the managing director) may hold office without re-election beyond the third annual general meeting following the meeting at which the Director was last elected or re-elected. The ASM Board may also appoint a ASM Director in addition to the existing ASM Directors or to fill a casual vacancy on the ASM Board, and that Director (apart from the managing director) will then hold office until the conclusion of ASM's next annual general meeting.

(n) Directors – voting

Questions arising at a meeting of the ASM Board must be decided by a majority of votes cast by the ASM Directors present at the meeting and entitled to vote on the matter. If the votes of present ASM Directors are equal on a proposed resolution, the chairperson of the meeting does have a second or casting vote as long as the chairperson is not entitled to vote or only two ASM Directors are entitled to vote.

A written resolution of the ASM Board may be passed without holding a meeting of the ASM Board if all of the eligible ASM Directors sign or consent to the resolution.

(o) Directors – remuneration

Under the ASM Constitution, the ASM Board may decide the remuneration from ASM to which each ASM Director is entitled for his or her services as a ASM Director. However, the total amount payable to all non-executive ASM Directors for their services as non-executive ASM Directors must not exceed in aggregate in any financial year the amount fixed by ASM Shareholders in a general meeting or consist of a commission on, or percentage of, operating revenue. Until otherwise determined by ASM Shareholders in general meeting, the amount is fixed at \$500,000.

ASM Directors may be paid for travel and other expenses incurred in attending to ASM affairs, including attending and returning from meetings of ASM Directors or ASM Board committees or general meetings. Any ASM Director who devotes special attention to the business of ASM or who performs services which, in the opinion of the ASM Board, are outside the scope of ordinary duties of a ASM Director, may be remunerated for the services (as determined by the ASM Board) out of the funds of ASM.

Details of the remuneration of the ASM Directors are set out in Section 6.7.

(p) Powers and duties of ASM Directors

The business and affairs of ASM are to be managed by or under the direction of the ASM Board, which (in addition to the specific powers and authorities conferred on it by the Constitution) may exercise all powers and do all things that are within ASM's power and the powers that are not required by law or by the ASM Constitution to be exercised by ASM in a general meeting. The power of the Board must be exercised in accordance with the ASM Constitution or by resolution passed at a meeting of the Board pursuant to the ASM Constitution.

(q) Indemnities

Subject to and so far as permitted by the Corporations Act and any other applicable law, ASM must indemnify directors or officers (or, if determined by the ASM Directors, auditors) of ASM against all losses or liabilities incurred by that person as a director, officer or auditor of ASM or of a Related Body Corporate. The indemnity in favour of officers is a continuing indemnity, and applies in respect of all acts done by a person while an officer of ASM (or one of its wholly owned subsidiaries) even though that person is not an officer at the time the claim is made.

ASM may, to the extent permitted by law, purchase and maintain insurance or pay, or agree to pay, a premium for insurance for each director or officer (or, if determined by the ASM Directors, auditors) of ASM against any liability incurred by that person as a director, officer or auditor of ASM or of a related body corporate, including but not limited to, liability for negligence or for reasonable legal costs incurred in defending a proceeding brought against that person.

(r) Amendments

ASM's Constitution may only be amended by a special resolution passed by ASM Shareholders at a general meeting.

11.4 Trading ASM Shares

In connection with its application for admission to the Official List of ASX, ASM will apply to participate in CHESS, in accordance with the ASX Listing Rules and ASX Settlement Operating Rules. CHESS is an electronic transfer and settlement system for transactions in securities quoted on the ASX under which transfers are effected in electronic form. ASM Shareholders who hold their ASM Shares on the CHESS or Australian issuer sponsored subregister will be able to sell or buy ASM Shares through their existing ASX participant broker. ASM is expected to trade under the ASX code of "ASM".

11.5 Regulatory relief, confirmations and waivers

(a) ASIC relief

(i) ASIC relief in respect of requirement to prepare a prospectus

ASIC has granted an exemption from Parts 6D.2 and 6D.3 of the Corporations Act to permit Alkane to use the Demerger Booklet in lieu of a prospectus in connection with the Demerger.

(ii) ASIC relief in respect of secondary sales of ASM Shares

ASIC has granted an exemption from the resale provisions in sections 707(5) and 707(6) of the Corporations Act to permit ASM Shares to be on-sold within the 12 months following their transfer under the Demerger (irrespective of

whether those ASM Shares were transferred to Eligible Shareholders or to the Sale Agent).

(iii) ASIC relief in operation of Ineligible Foreign Shareholder Sale Facility

ASIC has granted an exemption from certain requirements that Alkane may otherwise be required to comply with in order to operate the Ineligible Foreign Shareholder Sale Facility, including:

- (A) section 601ED of the Corporations Act in relation to the Ineligible Foreign Shareholder Sale Facility;
- (B) Divisions 2 to 5 of Part 7.9 of the Corporations Act in relation to an interest in the Ineligible Foreign Shareholder Sale Facility; and
- (C) the requirements to hold an Australian financial services licence for the provision of the following financial services:
 - (aa) dealing in an interest in the Ineligible Foreign Shareholder Sale Facility; and
 - (bb) the provision of general advice in relation to an interest in the Ineligible Foreign Shareholder Sale Facility.

(b) ASX confirmations and waivers

In March 2020, ASX provided the following in-principle advice (which is no longer current):

- (i) in-principle confirmation that, for the purposes of ASX Listing Rule 1.1, condition 3, ASM may issue an information memorandum that complies with the requirements of ASX Listing Rule 1.4 on the condition that the information memorandum incorporates parts of the Demerger Booklet, rather than a prospectus for the purposes of its admission to the Official List;
- (ii) in-principle confirmation that the distribution of ASM Shares to Alkane's substantial shareholder does not require separate shareholder approval, or otherwise a waiver from the obligation to obtain shareholder approval pursuant to ASX Listing Rule 10.1;
- (iii) in-principle waiver of ASX Listing Rule 10.14 such that the grant of ASM performance rights to the Managing Director will not require separate shareholder approval; and
- (iv) in-principle confirmation that the Demerger does not require shareholder approval under Chapter 11 of the ASX Listing Rules.

While this in-principle advice has expired, ASM will apply for the formal waiver and confirmations on the same basis. The Demerger is conditional on the receipt of the waiver and confirmations.

(c) ATO correspondence

Alkane has received a draft class ruling from the Australian Commissioner of Taxation which is to the satisfaction of Alkane. It is not intended that the draft class ruling is relied upon as the Australian Commissioner of Taxation is not bound to this draft ruling, nor has it been formally approved by the Commissioner.

11.6 Consents and disclaimers

(a) Each of the parties has given and has not, before the date of this document, withdrawn its written consent to be named in this document in the form and context in which it is named:

- (i) BDO Australia, as Independent Expert;
- (ii) PricewaterhouseCoopers Securities, as Investigating Accountant; and
- (iii) David Ian Chalmers, as Competent Person.

(b) The following persons have given and have not, before the date of this Demerger Booklet, withdrawn their written consent to the inclusion of the following statements and reports (where applicable) in this Demerger Booklet in the form and context in which they are included, and to all references in this Demerger Booklet to such statements and reports in the form and context in which they appear:

- (i) BDO Australia, in respect of its role as Independent Expert and in respect of the Independent Expert's Report in Annexure 3;
- (ii) PricewaterhouseCoopers Securities, in respect of its role as Investigating Accountant and in respect of the Investigating Accountant's Report in Annexure 4; and
- (iii) David Ian Chalmers, in respect of his role as Competent Person and in respect of the mineral resources and ore reserves information in Section 6.5 and Annexure 2.

(c) None of the above named persons:

- (i) has authorised or caused the issue of this Demerger Booklet; or
- (ii) makes, or purports to make, any statement in this Demerger Booklet or any statement on which a statement in this Demerger Booklet is based, other than a statement or report (if any) as specified in this Section 11.6.

- (d) Each of the above named persons to the maximum extent permitted by law, expressly disclaims all liability in respect of, makes no representation regarding, and takes no responsibility for, any part of this Demerger Booklet other than a reference to its name and the statement or report (if any) that has been included in this Demerger Booklet with the consent of that person as specified in this Section 11.6.

12. DEFINITIONS AND GLOSSARY OF TECHNICAL TERMS

For the purpose of this document, capitalised terms used in this Demerger Booklet have the meaning given below, unless the context requires otherwise (words in the singular include the plural and vice versa).

"**AAS**" means the Australian Accounting Standards.

"**AASB**" means the Australian Accounting Standards Board.

"**Alkane**" means Alkane Resources Ltd ACN 000 689 216.

"**Alkane Board**" means the board of directors of Alkane.

"**Alkane Director**" means a director of Alkane.

"**Alkane Financial Information**" has the meaning given to it in Section 5.1.

"**Alkane Group**" means Alkane and its subsidiaries.

"**Alkane Historical Financial Information**" has the meaning given to it in Section 5.1.

"**Alkane Market Value**" means the volume weighted average market price (as defined in the ASX Listing Rules) of Alkane Shares traded, on a normal settlement basis, over the five trading days commencing on the ASX Listing, multiplied by the number of Alkane Shares on issue as at the Demerger Record Date.

"**Alkane Performance Rights**" has the meaning given to it in Section 4.7.

"**Alkane Post-Demerger Group**" means Alkane and its subsidiaries immediately following implementation of the Demerger (which will exclude ASM and its subsidiaries) and, where the context requires, any one of them.

"**Alkane Post-Demerger Group Member**" means a member of the Alkane Post-Demerger Group.

"**Alkane (Post-Demerger) Pro Forma Historical Financial Information**" has the meaning given to it Section 5.1.

"**Alkane Share**" means a fully paid ordinary share in Alkane.

"**Alkane Shareholder**" means a holder of Alkane Shares.

"**Alkane Share Capital Amount**" means the balance in the Alkane share capital account immediately prior to the Demerger Record Date.

"**ASM**" means Australian Strategic Materials Limited ACN 168 368 401.

"**ASM Board**" means the board of directors of ASM.

"**ASM Constitution**" means the constitution of ASM.

"**ASM Director**" means a director of ASM.

"**ASM Equity Incentive Plan**" means the equity plan ASM intends to establish to facilitate the grant of ASM equity awards to employees.

"**ASM Group**" means ASM and its subsidiaries.

"**ASM Group Member**" means a member of the ASM Group.

"**ASM Historical Financial Information**" has the meaning given to it in Section 7.1.

"**ASM Holdings**" means Australian Strategic Materials (Holdings) Ltd ACN 091 489 511.

"**ASM Information Memorandum**" means document being prepared by ASM for the admission of ASM Shares to trading on the ASX.

"**ASM Long-term Incentive Plan**" has the meaning given to it in Section 6.11.

"**ASM Long-term Incentives**" has the meaning given to it in Section 6.11.

"**ASM Market Value**" means the volume weighted average market price (as defined in the ASX Listing Rules) of ASM Shares traded, on a normal settlement basis, over the five trading days commencing on the ASX Listing, multiplied by the number of ASM Shares on issue as at the Demerger Record Date.

"**ASM (post-Demerger) Pro Forma Historical Financial Information**" has the meaning given to it in Section 7.1.

"**ASM Share**" means a fully paid ordinary share in ASM.

"**ASM Shareholder**" means a holder of ASM Shares.

"**ASX Listing**" means the commencement of trading in ASM Shares on ASX.

"**ASX Recommendations**" means ASX Corporate Governance Principles and Recommendations 4th Edition.

"**BDO Australia**" means BDO Corporate Finance (WA) Pty Ltd ACN 124 031 045.

"**Capital Reduction**" means the reduction of the share capital of Alkane, without the cancellation of any Alkane Shares, by the Capital Reduction Amount.

"**Capital Reduction Amount**" means the amount calculated in accordance with the following formula:

$$A = \left(\frac{B}{B + C} \right) \times D$$

where:

A is the Capital Reduction Amount;

B is the ASM Market Value;

C is Alkane Market Value; and

D is Alkane Share Capital Amount;

and, in relation to a Demerger Participant, means so much of this amount as is attributable to the Alkane Shares held by that Demerger Participant.

"CHESS" means the electronic transfer and settlement system for transactions in securities quoted on the ASX under which transfers are effected in electronic form.

"Competent Person" means Mr David Ian Chalmers, FAusIMM, FAIG.

"Competent Person's Report" means the report prepared by the Competent Person set out in Annexure B.

"Corporations Act" means *Corporations Act 2001 (Cth)*.

"Demerger" means the proposed demerger of ASM from Alkane, as described in this Demerger Booklet.

"Demerger Costs" means costs or expenses incurred or committed to by any Alkane Post-Demerger Group Member or ASM Group Member as a direct consequence of taking actions that are reasonably necessary to plan for, structure, document and implement the Demerger and which but for the announcement or implementation of the Demerger would not have been incurred, unless otherwise agreed.

"Demerger Deed" means the demerger deed dated 16 June 2020 between Alkane and ASM, which is summarised in Section 8.6(a) of this Demerger Booklet.

"Demerger Dividend" means:

- (a) the distribution (whether by way of dividend or capital return) of the Demerger Dividend Amount; or
- (b) in relation to a Demerger Participant, so much of such distribution as is attributable to the Alkane Shares held by that Demerger Participant.

"Demerger Dividend Amount" means the difference determined by subtracting the Capital Reduction Amount from the Distribution Amount.

"Demerger Effective Date" means the day on which the Demerger becomes effective, which will be a date to be announced as such to ASX by Alkane after the Demerger Resolution has been passed at the Extraordinary General Meeting. As at the date of this Demerger Booklet

it is anticipated that the date on which the Demerger will become effective is as set out in the Indicative Timetable on page 8 of this Demerger Booklet. However, all dates in the Indicative Timetable are subject to change as described on that page.

"Demerger Implementation Date" means the date of implementation of the Demerger determined by Alkane in accordance with the ASX listing rules. As at the date of this Demerger Booklet, Alkane expects that the date on which implementation of the Demerger will occur is as set out in the Indicative Timetable on page 8 of this Demerger Booklet. However, all dates in the Indicative Timetable are subject to change as described on that page.

"Demerger Participant" means an Alkane Shareholder as at the Demerger Record Date (i.e. each Eligible Shareholder and each Ineligible Foreign Shareholder).

"Demerger Principle" has the meaning given to it in Section 4.1.

"Demerger Record Date" means 7.00pm (Sydney time) on the third Business Day after the Demerger Effective Date (or such other date as may be agreed in writing between Alkane and ASM or as may be required by ASX).

"Demerger Resolution" means the ordinary resolution to be voted on by Alkane Shareholders to approve the Demerger, set out in the Notice of Extraordinary General Meeting (as Resolution 1) which accompanies this document.

"Distribution Amount" means the amount calculated in accordance with the following formula:

$$DA = X \times Y$$

where:

DA is the Distribution Amount;

X is the volume weighted average market price (as defined in the ASX Listing Rules) of ASM Shares traded, on a normal settlement basis, over the five trading days commencing on the ASX Listing; and

Y is the number of Alkane Shares on issue as at the Demerger Record Date divided by five.

"Dubbo Project" means the rare metal project conducted by ASM and located at Toongi, 25 kilometres south of Dubbo in central NSW.

"Early Vesting Resolution" means the ordinary resolution to be voted on by Alkane Shareholders to approve the accelerated vesting of the 2017 TSR Performance Rights and the 2018 TSR Performance Rights, as set out in the Notice of Extraordinary General Meeting which accompanies this document.

"EFA" means Export Finance Australia.

"Eligible Shareholder" means a Demerger Participant with a registered address in Australia and New Zealand as at the Demerger Record Date.

"Extraordinary General Meeting" or **"General Meeting"** means the general meeting of Alkane Shareholders convened by the notice of meeting set out in Annexure 1 to this Demerger Booklet.

"FEED Study" means the Dubbo Project Front End Engineering Study.

"IASB" means the International Accounting Standards Board.

"IFRS" means the International Financial Reporting Standards.

"Independent Expert" means BDO Australia, which was appointed by Alkane to prepare the Independent Expert's Report.

"Independent Expert's Report" means the report prepared by the Independent Expert, set out in Annexure 3.

"Indicative Timetable" means the Indicative Timetable appearing on page 8 of this Booklet as altered from time to time. The Indicative Timetable is subject to alterations as notified by Alkane to, or as required by, ASX from time to time.

"Ineligible Foreign Shareholder" means a Demerger Participant with a registered address outside of the Australia and New Zealand as at the Demerger Record Date.

"Ineligible Foreign Shareholder Sale Facility" means the arrangement described in Section 8.4 above under which ASM Shares to which Ineligible Foreign Shareholders would otherwise be entitled under the Demerger will be transferred to the Sale Agent and sold on behalf of the Ineligible Foreign Shareholders.

"Information Claim Liability" means any Liability or Loss incurred by an Alkane Post-Demerger Group Member and/or an ASM Group Member and/or a Beneficiary of Alkane and/or a Beneficiary of ASM that is related to or connected with or arises from an Information Claim by a Third Party that a Disclosure Document is misleading or deceptive in any respect (whether by omission or otherwise) or otherwise fails to comply with applicable legal requirements but excludes any such Claim to the extent it relates to information provided by or on behalf of a Third Party with their written consent for inclusion in the relevant Disclosure Document.

"Intercompany Services Agreement" or **"ISA"** means the intercompany services agreement dated 20 May 2020 between Alkane and ASM (Holdings), which is summarised on Section 8.6(b) of this Demerger Booklet.

"Investigating Accountant" means PricewaterhouseCoopers Securities.

"Investigating Accountant's Report" means the report prepared by the Investigating Accountant, set out in Annexure 4.

"PricewaterhouseCoopers" or **"PwC"** means PricewaterhouseCoopers, Australian Partnership.

"PricewaterhouseCoopers Securities" or **"PwCS"** means PricewaterhouseCoopers Securities Ltd.

"Registries" means the share registries of Alkane and ASM.

"Resolutions" means each of the Demerger Resolution and the Early Vesting Resolution.

"Restructure Deed" means the restructure deed to be made between Alkane, ASM, TPC and another wholly-owned member of the Alkane Group, referred to in Section 8.6(c) of this Demerger Booklet.

"RMR Tech" means the entity in which ASM holds a 10% equity interest – see Section 6.14(a) for details.

"RMR Board" has the meaning given to it in Section 6.14(a).

"Sale Agent" means Petra Capital Pty Limited ABN 95 110 952 782.

"Specified Excluded Offers" means any offer made or option acquired, or ASM Shares issued under the ASM Long-Term Incentive Plan that is to be disregarded when calculating the share limit referred to in Section 6.11(c), as a result of:

- i. an offer to a person situated outside Australia at the time of receipt of the offer;
- ii. an offer that did not need disclosure to investors because of section 708 of the Corporations Act;
- iii. an offer that did not require the giving of a product disclosure statement (as defined in the Corporations Act) because of section 1012D of the Corporations Act; or
- iv. an offer made under a disclosure document or product disclosure statement (each as defined in the Corporations Act).

"Tomingley Holdings" means Tomingley Holdings Pty Ltd ACN 148 060 208.

"Tomingley Operations" or **"Tomingley Gold Operations"** or **"TGO"** means the gold operations conducted by Alkane's wholly-owned subsidiary Tomingley Gold Operations Pty Ltd and located at Tomingley, approximately 50 kilometres south-west of Dubbo in central NSW.

"TPC" means Toongi Pastoral Company Pty Ltd ACN 610 749 187.

"VWAP" means volume weighted average price.

"Ziron Tech" has the meaning given to it in Section 6.3.

ANNEXURES

Annexure 1: Notice of Extraordinary General Meeting

Annexure 2: Mineral resources and ore reserves information

Annexure 3: Independent Expert's Report

Annexure 4: Investigating Accountant's Report

ANNEXURE 1

NOTICE OF EXTRAORDINARY GENERAL MEETING

Notice is hereby given of an Extraordinary General Meeting of Shareholders of Alkane Resources Ltd (the **Company**) (**Extraordinary General Meeting** or **Meeting**). The Extraordinary General Meeting is to be held on 16 July 2020 at 10:00am (AWST) as a virtual only meeting via a live webcast.

As a result of the potential health risks from the Coronavirus (COVID-19) pandemic and in line with the Australian Government's restrictions on travel and social gatherings, it is not currently advisable to host shareholders and members of the public in person at the Extraordinary General Meeting (**EGM**). The Company will therefore be holding a virtual meeting through an online webcast powered by "Lumi AGM", where Shareholders will be able to watch, listen, submit written questions and vote online. The Company cannot facilitate the physical attendance of Alkane Shareholder at the EGM as a consequence of the current COVID-19 restrictions. Instructions on how to join the meeting and vote on the resolutions through the Lumi webcast are set out in the Online Meeting Guide, enclosed with this notice and can also be found on the Company's website at www.alkane.com.au/demerger/.

Provision of Extraordinary Meeting materials

In accordance with the Australian Government's temporary modifications provided under the Corporations (Coronavirus Economic Response) Determination (No. 1) 2020, the Notice of EGM, the accompanying explanatory statement (ie, the Demerger Booklet) and Proxy Form are being made available to shareholders electronically.

All Alkane Shareholders will be able to access the Notice of Extraordinary General Meeting, the Demerger Booklet and all annexures (including the Proxy Form) online at: www.alkane.com.au/demerger/. Alkane have also provided the meeting materials on the Company's ASX announcements page and are therefore available through the ASX Market Announcements Platform by inserting Alkane's ASX code (ALK) into the search function on <https://www.asx.com.au/asx/statistics/announcements>.

Any Alkane Shareholders that have nominated an email address and have elected to receive electronic communications from the Company, will also receive an email to their nominated account with a link to an electronic copy of the Notice of Extraordinary General Meeting, Demerger Booklet and all annexures (including the Proxy Forms).

If you are unable to access the relevant meeting materials online, please contact the EGM help line on +61 8 9227 5677 between 9:00am and 5:00pm AWST Monday to Friday. If you wish to receive a paper copy of the meeting materials, please contact the Alkane Shareholder Information Line on 08 9227 5677 or email the Company at info@alkane.com.au and the Company will mail one to you. Please remember to provide your name, address and contact phone number.

Participation at the EGM

Alkane Shareholders who wish to participate in the EGM online may do so:

1. Online at <https://web.lumiagm.com/350099625>; or
2. Using the Lumi AGM App

In order to access the Lumi online platform, Alkane Shareholders should use the Meeting ID 350099625. Your username is your SRN/HIN and your password is the postcode registered to your holding if you are an Australian shareholder. Overseas shareholders should refer to the Online Meeting Guide for their password details. Further instructions on how to participate in the EGM are set out in the Online Meeting Guide, enclosed with this Notice and can also be found on the Company's website at www.alkane.com.au/demerger/.

Voting on the resolutions

If you attend the EGM webcast, you will be able to vote directly during the EGM. Voting on each item of business will be by poll.

Instruction on how to vote on the resolutions via the online platform are set out in the enclosed Online Meeting Guide, enclosed with this Notice of EGM and can also be found on the Company's website at www.alkane.com.au/demerger/.

The Chairman will open the poll shortly after the EGM commences and you will be able to vote at any time during the EGM and for 10 minutes afterwards. If you have lodged a direct vote and then vote online again during the EGM, your first direct vote lodged will be cancelled.

Voting on the resolutions at the Meeting is important and the Alkane Board encourages all Alkane Shareholders to either vote at the Meeting via the online platform, or nominate a proxy by providing the Proxy Form according to the instructions provided on the Proxy Form. Proxy Forms can be lodged online at www.advancedshare.com.au/investor-login or sent by mail to the Company's Share Registry, Advanced Share Registry Services, so that it is received by 10:00am (AWST) on 14 July 2020.

Shareholders experiencing difficulties accessing the virtual EGM can call the EGM help line on +61 8 9227 5677 on the day of the meeting to request assistance.

BUSINESS

Resolution 1: Approval of Demerger (including reduction of capital) ("Demerger Resolution")

To consider and, if thought fit, pass the following resolution as an ordinary resolution:

"That:

- (a) the Demerger (including the Demerger Deed and the Intercompany Services Agreement) be approved for all purposes; and*
- (b) without limiting paragraph (a), for the purposes of section 256B and section 256C(1) of the Corporations Act and rule 32 of the Company's constitution, the share capital of the Company be reduced on the Demerger Implementation Date:*
 - (i) by the Capital Reduction Amount; and*
 - (ii) if and to the extent that the Demerger otherwise involves a return of share capital for the purpose of Division 1 of Part 2J.1 of the Corporations Act, by the amount of share capital that is to be so returned;*

and the total amount by which the share capital is so reduced be applied to each holder of ordinary shares as at the Demerger Record Date in proportion to the number of ordinary shares they hold in the manner more particularly described in the explanatory statement contained in the booklet of which the notice convening this meeting forms part.

Terms ascribed a meaning by the explanatory statement contained in the booklet of which the notice convening this meeting forms part have the same meaning in this resolution."

Note

The explanatory statement and proxy form accompanying this notice convening the Meeting are incorporated in and comprise part of the Notice of Meeting.

Resolution 2: Approval of early vesting of Performance Rights upon implementation of the Demerger ("Early Vesting Resolution")

To consider and, if thought fit, pass the following resolution as an ordinary resolution:

"That, for the purposes of sections 200C and 200E of the Corporations Act and ASX Listing Rule 6.23, and for all other purposes, approval be given for the treatment of Alkane Performance Rights as described in section 4.7 of the explanatory statement contained in the booklet of which the notice convening this meeting forms part, including (without limitation) for the

giving of any benefits arising from or in connection with the early vesting of Alkane Performance Rights as so described upon and subject to implementation of the Demerger."

Voting Exclusion Statement

Voting exclusions apply in relation to this Early Vesting Resolution. Details of the voting exclusions are set out in Section 4.7 of this Demerger Booklet.

Other business

To consider any other business as may be lawfully put forward in accordance with the Constitution of the Company.

By order of the Board



Dennis Wilkins
Company Secretary

NOTES

This Notice of Extraordinary General Meeting should be read as part of the booklet (**Demerger Booklet**) of which the notice convening the Extraordinary General Meeting is contained. The Demerger Booklet should be read in its entirety.

Information relating to the proposed Demerger and the Resolutions are set out elsewhere in the Demerger Booklet.

Your Board recommends that you vote in favour of the Resolutions. The Demerger Booklet provides further background in relation to the Board's recommendation that you vote in favour of these resolutions.

Terms ascribed a meaning elsewhere in the Demerger Booklet in which this Notice is contained have the same meaning in this Notice, unless the context otherwise requires.

1. Intention of Chairman

The Chairman of the Meeting intends to vote all available undirected proxies in favour of the Resolutions.

2. Eligibility to vote

The board of Directors of the Company (**Board**) has determined, pursuant to Regulation 7.11.37 of the *Corporations Regulations 2001* (Cth), that persons who are registered holders of shares of the Company (Shareholders) as at 5pm (Perth time) / 7pm (Sydney time) on 14 July 2020 will be entitled to attend and vote at the Extraordinary General Meeting.

If more than one joint holder of Shares is present at the Meeting (whether personally, by proxy or by attorney or by representative) and tenders a vote, only the vote of the joint holder whose name appears first on the register will be counted.

3. Voting Procedure

In accordance with temporary modification provided under Corporations (Coronavirus Economic Response) Determination (No. 1) 2020, and recent

changes to ASX Guidance, the resolutions must be decided by a poll rather than a show of hands.

As part of the live webcast of the Extraordinary General Meeting, Shareholders will be able to vote on the resolutions to be considered at the Extraordinary General Meeting, either at the meeting via the online platform or by appointing a proxy to vote on their behalf.

Enclosed with this Notice of Extraordinary General Meeting, is an online meeting guide that provides instructions on how to join the webcast, vote on the resolutions and ask questions. The online meeting guide can also be found on the Company's website at www.alkane.com.au/demerger/.

Online registrations will begin one hour before the start of the Extraordinary General Meeting.

4. Appointment of proxies

A Proxy Form is attached to the Notice. This Form may be used by Shareholders if they wish to appoint a 'proxy' to vote on their behalf at the Meeting. All Shareholders are invited and encouraged

to attend the Meeting via the online portal, or if they are unable to attend online, either lodge the Proxy Form online at www.advancedshare.com/investor-login or sign and return the Proxy Form to the Company or the Company's Share Registry in accordance with the instructions thereon. Lodgement of a Proxy Form will not preclude a Shareholder from attending and voting at the Meeting in person.

A Shareholder has the right to appoint a proxy, who need not be a Shareholder of the Company. Shareholders entitled to cast two or more votes may appoint two proxies and may specify the proportion or number of votes each proxy is appointed to exercise. If the appointment does not specify this proportion, each proxy may exercise half the votes.

Sections 250BB and 250BC of the Corporations Act apply to voting by proxy. Generally, these sections mean that if proxy holders vote, they must cast all directed proxies as directed, and any directed proxies that are not voted will automatically default to the Chairman of the Meeting, who must vote the proxies as directed. If the proxy has two or more appointments that specify different ways to vote on the resolution, the proxy must not vote on a show of hands.

Information about voting by proxy, including appointing a proxy and lodging a Proxy Form, is set out in instructions included in the Proxy Form that accompanies this Notice of Extraordinary General Meeting.

Proxy appointments must be received no later than 10:00am (AWST) on 14 July 2020. **Proxy forms received later than this time will not be valid for the Meeting.** The Company encourages all Alkane

Shareholders who intend to appoint a proxy to submit their Proxy Forms as early as possible.

5. Corporate representatives

A body corporate which is an Alkane Shareholder, or that has been appointed as a proxy, may appoint a person to act as its representative at the Meeting. The appointment of the representative must comply with the requirements under section 250D of the Corporations Act. The representative should have evidence of his or her appointment as the body corporate's representative, including any authority under which the appointment is signed, unless it has been previously given to the Company.

6. Shareholder Questions

Shareholders will be able to ask questions relevant to the business of the Extraordinary General Meeting, at the Extraordinary General Meeting.

Instructions on how to submit questions via the online platform are set out in the online meeting guide that accompanies this Notice of Extraordinary General Meeting and can also be found on the Company's [website](http://www.alkane.com.au) (www.alkane.com.au/demerger/).

Shareholders who are unable to attend the Meeting or wish to submit questions prior to the Meeting may submit written questions by emailing info@alkane.com.au. Questions must be received by 10.00am (AWST), 14 July 2020.

The more frequently raised shareholder issues will be addressed by the Chairman during the course of the Meeting. While there will be an allotted time for questions,

the Alkane Board will endeavour to respond to as many Shareholder Questions as possible. However, there may still not be sufficient time available at the meeting to address all of the questions raised. Please note that individual responses will not be sent to shareholders.

7. ASIC and ASX

A copy of the Demerger Booklet (including this Notice of Extraordinary General Meeting) has been lodged with ASIC and ASX. Neither ASIC, ASX nor any of their respective officers takes any responsibility for the contents of this document.

8. No financial product advice

This document does not constitute financial product, taxation or investment advice nor a recommendation in respect of the Alkane Shares or ASM Shares. It has been prepared without taking into account the objectives, financial situation or needs of Shareholders or other persons. Before

deciding how to vote or act, Shareholders should consider the appropriateness of the information, having regard to their own objectives, financial situation and needs and seek legal, taxation and financial advice appropriate to their circumstances.

Neither the Company nor ASM is licensed to provide financial product advice. No cooling-off regime applies in respect of the acquisition of ASM Shares under the in specie distribution (whether the regime is provided for by law or otherwise).

9. No internet site is part of this document

No internet site is part of this Notice of Extraordinary General Meeting or the Demerger Booklet. The Company maintains an internet site (www.alkane.com.au). Any reference in this document to this internet site is a textual reference only and does not form part of this document.

ANNEXURE 2

Mineral resources and reserves information

JORC Code, 2012 Edition – Table 1 report – Dubbo Project
Section 1 Sampling Techniques and Data

(Criteria in this section apply to all succeeding sections.)

Criteria	JORC Code explanation	Commentary
Sampling techniques	<ul style="list-style-type: none"> Nature and quality of sampling (eg cut channels, random chips, or specific specialised industry standard measurement tools appropriate to the minerals under investigation, such as down hole gamma sondes, or handheld XRF instruments, etc). These examples should not be taken as limiting the broad meaning of sampling. Include reference to measures taken to ensure sample representivity and the appropriate calibration of any measurement tools or systems used. Aspects of the determination of mineralisation that are Material to the Public Report. In cases where 'industry standard' work has been done this would be relatively simple (eg 'reverse circulation drilling was used to obtain 1 m samples from which 3 kg was pulverised to produce a 30 g charge for fire assay'). In other cases more explanation may be required, such as where there is coarse gold that has inherent sampling problems. Unusual commodities or mineralisation types (eg submarine nodules) may warrant disclosure of detailed information. 	<ul style="list-style-type: none"> The deposit was primarily sampled via reverse circulation chip samples from reverse circulation drill holes and half core samples based on geological considerations within diamond drill holes drilled on an average 80m x 80m grid through the deposit. The samples were typically taken on 1m intervals through the deposit. The holes were orientated to ensure drill intersections were approximately perpendicular to the dip and strike of the mineralisation lenses and overall geological package which is generally flat lying. Diamond core and reverse circulation drill samples were crushed and assayed for ZrO₂, HfO₂, Nb₂O₅, Ta₂O₅, Y₂O₃, La₂O₃, CeO₂, Th, U, Nd₂O₃, Dy₂O₃, Er₂O₃, Eu₂O₃, Gd₂O₃, Ho₂O₃, Lu₂O₃, Pr₆O₁₁, Sm₂O₃, Tb₄O₇, Tm₂O₃ and Yb₂O₃ via a combination of Pressed Powder XRF, mixed acid digest ICPMS and NAA (Neutron Activation) methods.
Drilling techniques	<ul style="list-style-type: none"> Drill type (eg core, reverse circulation, open-hole hammer, rotary air blast, auger, Bangka, sonic, etc) and details (eg core diameter, triple or standard tube, depth of diamond tails, face-sampling bit or other type, whether core is orientated and if so, by what method, etc). 	<ul style="list-style-type: none"> A total of 127 drillholes holes have been used to estimate the Toongi Resources, of these a total of 4 were surface diamond holes and 123 were reverse circulation holes. The diamond core size drilled was predominately with standard tube NQ2 sized core. All diamond core was orientated.
Drill sample recovery	<ul style="list-style-type: none"> Method of recording and assessing core and chip sample recoveries and results assessed. Measures taken to maximise sample recovery and ensure representative nature of the samples. Whether a relationship exists between sample recovery and grade and whether sample bias may have occurred due to preferential loss/gain of fine/coarse material. 	<ul style="list-style-type: none"> The diamond core drill recovery was monitored using a combination of the drillers run sheets, core block markings and manual piecing together of core and measurement. Any core loss was noted within the logging sheets. Core recovery averaged >98% through the ore intervals. Recovery of the RC samples were not routinely recorded however samples were weighed of the subset of samples that were sent for metallurgical testwork, these weights were in line with expectations from the size of hammer used.
Logging	<ul style="list-style-type: none"> Whether core and chip samples have been geologically and geotechnically logged to a level of detail to support appropriate Mineral Resource estimation, mining studies and metallurgical studies. Whether logging is qualitative or quantitative in nature. Core (or costean, channel, etc) photography. The total length and percentage of the relevant intersections logged. 	<ul style="list-style-type: none"> All diamond core and reverse circulation chips were logged for geological and geotechnical characteristics. Rock type, alteration style and sulphide mineral content were logged by a site geologist. The logging was sufficient to enable creation of detailed geological model that supports the resource estimate.
Sub-sampling techniques	<ul style="list-style-type: none"> If core, whether cut or sawn and whether quarter, half or all core taken. 	<ul style="list-style-type: none"> HQ2 sized diamond core was marked up and cut in half with a diamond core saw. The right side of the core as sampled according to 1m

Criteria	JORC Code explanation	Commentary
and sample preparation	<ul style="list-style-type: none"> <i>If non-core, whether riffled, tube sampled, rotary split, etc and whether sampled wet or dry.</i> <i>For all sample types, the nature, quality and appropriateness of the sample preparation technique.</i> <i>Quality control procedures adopted for all sub-sampling stages to maximise representivity of samples.</i> <i>Measures taken to ensure that the sampling is representative of the in situ material collected, including for instance results for field duplicate/second-half sampling.</i> <i>Whether sample sizes are appropriate to the grain size of the material being sampled.</i> 	<p>intervals selected by the site Geologist. Sample fillets were also taken from the core holes where half core samples was not taken.</p> <ul style="list-style-type: none"> The RC samples were poured through a riffle splitter after the sample was circulated from the drill face through a cyclone and into a large plastic bag. The methodology of selecting half core via geological intervals guarantees that the core samples are representative. The reverse circulation drilling samples are collected on 1m intervals so there is no selectivity bias with these. The sample sizes vary from material sourced from the core samples given the varying sample lengths. The RC samples are generally 5-10 kg. The sample sizes are appropriate given the relatively even distribution of base metal grades within the deposit
Quality of assay data and laboratory tests	<ul style="list-style-type: none"> <i>The nature, quality and appropriateness of the assaying and laboratory procedures used and whether the technique is considered partial or total.</i> <i>For geophysical tools, spectrometers, handheld XRF instruments, etc, the parameters used in determining the analysis including instrument make and model, reading times, calibrations factors applied and their derivation, etc.</i> <i>Nature of quality control procedures adopted (eg standards, blanks, duplicates, external laboratory checks) and whether acceptable levels of accuracy (ie lack of bias) and precision have been established.</i> 	<ul style="list-style-type: none"> Analabs Perth, Analytical Services (WA), ALS (Brisbane), Ultra Trace Pty Ltd and Becquerel Laboratories have all completed assaying of the Toongi mineralisation at various stages. Standard and duplicate samples were assessed for the 2000 and 2001 drilling samples. The results of these samples indicate that there are no known material biases in the original Toongi assay dataset.
Verification of sampling and assaying	<ul style="list-style-type: none"> <i>The verification of significant intersections by either independent or alternative company personnel.</i> <i>The use of twinned holes.</i> <i>Documentation of primary data, data entry procedures, data verification, data storage (physical and electronic) protocols.</i> <i>Discuss any adjustment to assay data.</i> 	<ul style="list-style-type: none"> Several campaigns of duplicate sampling were completed, the majority of the results for these samples indicate an acceptable correlation with the original assay determinations. Reference standards were also used to ensure accuracy within the laboratory assaying protocols, as with the duplicates these samples show sufficient accuracy to confirm the validity of the original assay dataset. Data was entered into a central database and then validated by a series of validation checks to ensure erroneous data was not saved into the resource database.
Location of data points	<ul style="list-style-type: none"> <i>Accuracy and quality of surveys used to locate drill holes (collar and down-hole surveys), trenches, mine workings and other locations used in Mineral Resource estimation.</i> <i>Specification of the grid system used.</i> <i>Quality and adequacy of topographic control.</i> 	<ul style="list-style-type: none"> The GDA94 grid system was used as the grid reference for the Toongi deposit. All holes were surveyed using a differential GPS survey system. The topography surface is represented by a wireframe file. The surface covers the complete Toongi deposit area. The surface is an accurate representation of the actual topographic surface at the site.

Criteria	JORC Code explanation	Commentary
Data spacing and distribution	<ul style="list-style-type: none"> • <i>Data spacing for reporting of Exploration Results.</i> • <i>Whether the data spacing and distribution is sufficient to establish the degree of geological and grade continuity appropriate for the Mineral Resource and Ore Reserve estimation procedure(s) and classifications applied.</i> • <i>Whether sample compositing has been applied.</i> 	<ul style="list-style-type: none"> • The Toongi deposit has been drilled on an average spacing of 80 x 80m along the strike of the ore domain. This drill spacing provides evidence of the mineralized zone continuity for the purposes of resource estimation. • No sampling compositing was necessary in the initial diamond drilling or RC drilling however compositing of raw assay data was completed in preparation for the resource estimation process.
Orientation of data in relation to geological structure	<ul style="list-style-type: none"> • <i>Whether the orientation of sampling achieves unbiased sampling of possible structures and the extent to which this is known, considering the deposit type.</i> • <i>If the relationship between the drilling orientation and the orientation of key mineralised structures is considered to have introduced a sampling bias, this should be assessed and reported if material.</i> 	<ul style="list-style-type: none"> • The majority of RC drill holes were orientated to provide an approximate perpendicular intersection angle with the main mineralized zone. • No sampling bias is assessed as being caused by the drilling orientation.
Sample security	<ul style="list-style-type: none"> • <i>The measures taken to ensure sample security.</i> 	<ul style="list-style-type: none"> • Samples were supervised by either the drill crew, field assistant or geologist and at all times. Given the low grade rare earth oxide nature of the deposit sample security was not assessed as a significant risk.
Audits or reviews	<ul style="list-style-type: none"> • <i>The results of any audits or reviews of sampling techniques and data.</i> 	<ul style="list-style-type: none"> • No audits have been undertaken

Section 2 Reporting of Exploration Results

(Criteria listed in the preceding section also apply to this section.)

Criteria	JORC Code explanation	Commentary
Mineral tenement and land tenure status	<ul style="list-style-type: none"> Type, reference name/number, location and ownership including agreements or material issues with third parties such as joint ventures, partnerships, overriding royalties, native title interests, historical sites, wilderness or national park and environmental settings. The security of the tenure held at the time of reporting along with any known impediments to obtaining a licence to operate in the area. 	<ul style="list-style-type: none"> The Toongi deposit is located within ML1724 that is located within EL5548. The license areas area current.
Exploration done by other parties	<ul style="list-style-type: none"> Acknowledgment and appraisal of exploration by other parties. 	<ul style="list-style-type: none"> All work completed by Australian Strategic Materials Ltd (formerly known as Australian Zirconia Ltd) or associated parties
Geology	<ul style="list-style-type: none"> Deposit type, geological setting and style of mineralisation. 	<ul style="list-style-type: none"> The deposit consists of rare earth oxide mineralisation disseminated within a trachyte sill that occurs within the sedimentary units of the Jurassic Napperby Formation.
Drill hole Information	<ul style="list-style-type: none"> A summary of all information material to the understanding of the exploration results including a tabulation of the following information for all Material drill holes: <ul style="list-style-type: none"> easting and northing of the drill hole collar elevation or RL (Reduced Level – elevation above sea level in metres) of the drill hole collar dip and azimuth of the hole down hole length and interception depth hole length. If the exclusion of this information is justified on the basis that the information is not Material and this exclusion does not detract from the understanding of the report, the Competent Person should clearly explain why this is the case. 	<ul style="list-style-type: none"> A list of each resource drillhole location and downhole survey is located as an appendices 2 & 3 to this table, see below.
Data aggregation methods	<ul style="list-style-type: none"> In reporting Exploration Results, weighting averaging techniques, maximum and/or minimum grade truncations (eg cutting of high grades) and cut-off grades are usually Material and should be stated. Where aggregate intercepts incorporate short lengths of high grade results and longer lengths of low grade results, the procedure used for such aggregation should be stated and some typical examples of such aggregations should be shown in detail. The assumptions used for any reporting of metal equivalent values should be clearly stated. 	<ul style="list-style-type: none"> The exploration results reported for the Toongi deposit were included assay intervals for ZrO₂ and an extensive suite of rare earth oxide grades. No cutting of high grades was completed when reporting as exploration results
Relationship between mineralisation widths and intercept lengths	<ul style="list-style-type: none"> These relationships are particularly important in the reporting of Exploration Results. If the geometry of the mineralisation with respect to the drill hole angle is known, its nature should be reported. If it is not known and only the down hole lengths are reported, there should be a clear statement to this effect (eg 'down hole length, true width not known'). 	<ul style="list-style-type: none"> The typical drill sample interval is 1m in length, the average thickness of the mineralized zone 20m, there are no issues with reporting the results based on this. The drillholes intercepted the mineralized lenses at an approximately perpendicular angle. All exploration results were reported as downhole thicknesses.
Diagrams	<ul style="list-style-type: none"> Appropriate maps and sections (with scales) and tabulations of intercepts should be included for any significant discovery being reported These should include, but not be limited to a plan view of drill hole collar locations and appropriate sectional views. 	<ul style="list-style-type: none"> See Appendix 4 for a location plan of all drill collars used in the resource estimate.

Criteria	JORC Code explanation	Commentary
Balanced reporting	<ul style="list-style-type: none"> Where comprehensive reporting of all Exploration Results is not practicable, representative reporting of both low and high grades and/or widths should be practiced to avoid misleading reporting of Exploration Results. 	<ul style="list-style-type: none"> Exploration data is not being reported here
Other substantive exploration data	<ul style="list-style-type: none"> Other exploration data, if meaningful and material, should be reported including (but not limited to): geological observations; geophysical survey results; geochemical survey results; bulk samples – size and method of treatment; metallurgical test results; bulk density, groundwater, geotechnical and rock characteristics; potential deleterious or contaminating substances. 	<ul style="list-style-type: none"> Exploration data not being reported here. No other data to report
Further work	<ul style="list-style-type: none"> The nature and scale of planned further work (eg tests for lateral extensions or depth extensions or large-scale step-out drilling). Diagrams clearly highlighting the areas of possible extensions, including the main geological interpretations and future drilling areas, provided this information is not commercially sensitive. 	<ul style="list-style-type: none"> Further infill drilling will be required within the deposit area with a view to upgrading inferred resources to either indicated or measured categories.

Section 3 Estimation and Reporting of Mineral Resources

(Criteria listed in section 1, and where relevant in section 2, also apply to this section.)

Criteria	JORC Code explanation	Commentary
Database integrity	<ul style="list-style-type: none"> Measures taken to ensure that data has not been corrupted by, for example, transcription or keying errors, between its initial collection and its use for Mineral Resource estimation purposes. Data validation procedures used. 	<ul style="list-style-type: none"> The survey, sampling and logging data was electronically imported into the resource database. A visual check was also made of the drill traces, assay and logging data in the 3D environment of Surpac to ensure that results correlated between drillholes and were in line with the geological interpretation and mineralization continuity.
Site visits	<ul style="list-style-type: none"> Comment on any site visits undertaken by the Competent Person and the outcome of those visits. If no site visits have been undertaken indicate why this is the case. 	<ul style="list-style-type: none"> A site visit was completed by Stuart Hutchin in October 2016 where the Toongi site and core samples located within the core storage facility were inspected.
Geological interpretation	<ul style="list-style-type: none"> Confidence in (or conversely, the uncertainty of) the geological interpretation of the mineral deposit. Nature of the data used and of any assumptions made. The effect, if any, of alternative interpretations on Mineral Resource estimation. The use of geology in guiding and controlling Mineral Resource estimation. The factors affecting continuity both of grade and geology. 	<ul style="list-style-type: none"> The confidence in the overall geological interpretation is high given the regular distribution of the trachyte sill and 80m x 80m drill coverage over the deposit that have defined the sill edges in all directions. The mineralisation occurs disseminated throughout the trachyte sill. Grades are relatively consistent however the grain size of the host trachyte does have a minor effect on grade variability, there is also some enrichment of grades in the vicinity of the trachyte contact.
Dimensions	<ul style="list-style-type: none"> The extent and variability of the Mineral Resource expressed as length (along strike or otherwise), plan width, and depth below surface to the upper and lower limits of the Mineral Resource. 	<ul style="list-style-type: none"> The strike length of the mineralised domain modelled is approximately 500m long by 400m wide with an average thickness of 30m. The resource domain is located from near the surface topography and extends to a depth of 50m below surface.
Estimation and modelling techniques	<ul style="list-style-type: none"> The nature and appropriateness of the estimation technique(s) applied and key assumptions, including treatment of extreme grade values, domaining, interpolation parameters and maximum distance of extrapolation from data points. If a computer assisted estimation 	<ul style="list-style-type: none"> The resource model was constructed using Surpac software. Mineralised domain wireframes were constructed using the geology boundary of the trachyte to guide the interpretation. A minimum

Criteria	JORC Code explanation	Commentary
	<p><i>method was chosen include a description of computer software and parameters used.</i></p> <ul style="list-style-type: none"> • <i>The availability of check estimates, previous estimates and/or mine production records and whether the Mineral Resource estimate takes appropriate account of such data.</i> • <i>The assumptions made regarding recovery of by-products.</i> • <i>Estimation of deleterious elements or other non-grade variables of economic significance (eg sulphur for acid mine drainage characterisation).</i> • <i>In the case of block model interpolation, the block size in relation to the average sample spacing and the search employed.</i> • <i>Any assumptions behind modelling of selective mining units.</i> • <i>Any assumptions about correlation between variables.</i> • <i>Description of how the geological interpretation was used to control the resource estimates.</i> • <i>Discussion of basis for using or not using grade cutting or capping.</i> • <i>The process of validation, the checking process used, the comparison of model data to drill hole data, and use of reconciliation data if available.</i> 	<p>domain thickness of 5m was used, this corresponds to the minimum practical mining width within an open pit mining scenario.</p> <ul style="list-style-type: none"> • After review of the assay dataset statistics it was assessed that no top cutting was valid or required for the Toongi mineralisation. • A composite file was created using a composite length of 1m. The median sample length within the assay dataset is also 1m. • Variograms for each attribute were created for the modelled domain with the results of these used to assist with estimation of resources. • An ordinary kriged estimate was run for ZrO₂, HfO₂, Nb₂O₅, Ta₂O₅, Y₂O₃, La₂O₃, CeO₂, Th and U. For the other oxides where assay data was not available for all holes an inverse distance estimate was run. • The estimation process was validated by comparing global block grades with the average composite grades, visual checks comparing block grades with raw assay data, volume checks of the ore domain wireframe vs the block model volume and comparison of the ordinary kriged results with an inverse distance estimate. • The validation steps taken indicate that the block estimates are a realistic representation of the source assay data and that they block model volumes are valid in comparison to the modelled interpretation.
Moisture	<ul style="list-style-type: none"> • <i>Whether the tonnages are estimated on a dry basis or with natural moisture, and the method of determination of the moisture content.</i> 	<ul style="list-style-type: none"> • The resource tonnages have been estimated on a dry basis
Cut-off parameters	<ul style="list-style-type: none"> • <i>The basis of the adopted cut-off grade(s) or quality parameters applied.</i> 	<ul style="list-style-type: none"> • Given the very even grade distribution within the deposit applying resource cut-off was not assessed as necessary, the grade tonnage curves of ZrO₂ % and TREO% demonstrate this.
Mining factors or assumptions	<ul style="list-style-type: none"> • <i>Assumptions made regarding possible mining methods, minimum mining dimensions and internal (or, if applicable, external) mining dilution. It is always necessary as part of the process of determining reasonable prospects for eventual economic extraction to consider potential mining methods, but the assumptions made regarding mining methods and parameters when estimating Mineral Resources may not always be rigorous. Where this is the case, this should be reported with an explanation of the basis of the mining assumptions made.</i> 	<ul style="list-style-type: none"> • The resources have been estimated using a minimum thickness of 5m for the domain shape, this minimum thickness therefore accounts for any dilution in zones that are less than this thickness. The proposed mining method is via open pit mining techniques, the model parameters are therefore deemed to be suitable for this type of potential mining operation.
Metallurgical factors or assumptions	<ul style="list-style-type: none"> • <i>The basis for assumptions or predictions regarding metallurgical amenability. It is always necessary as part of the process of determining reasonable prospects for eventual economic extraction to consider potential metallurgical methods, but the assumptions regarding metallurgical treatment processes and parameters made when reporting Mineral Resources may not always be rigorous. Where this is the case, this should be reported with an explanation of the basis of the metallurgical assumptions made.</i> 	<ul style="list-style-type: none"> • A detailed metallurgical testwork program, has been completed including the construction and running of a pilot plant. The metallurgical process, including capital and operating costs, is well understood. A detailed Front End Engineering Design report has been completed.

Criteria	JORC Code explanation	Commentary
Environmental factors or assumptions	<ul style="list-style-type: none"> Assumptions made regarding possible waste and process residue disposal options. It is always necessary as part of the process of determining reasonable prospects for eventual economic extraction to consider the potential environmental impacts of the mining and processing operation. While at this stage the determination of potential environmental impacts, particularly for a greenfields project, may not always be well advanced, the status of early consideration of these potential environmental impacts should be reported. Where these aspects have not been considered this should be reported with an explanation of the environmental assumptions made. 	<ul style="list-style-type: none"> An Environmental Impact Statement has been prepared and approved covering all aspects of environmental impacts for the proposed project. Development Approval has been granted by the NSW Government
Bulk density	<ul style="list-style-type: none"> Whether assumed or determined. If assumed, the basis for the assumptions. If determined, the method used, whether wet or dry, the frequency of the measurements, the nature, size and representativeness of the samples. The bulk density for bulk material must have been measured by methods that adequately account for void spaces (vugs, porosity, etc), moisture and differences between rock and alteration zones within the deposit. Discuss assumptions for bulk density estimates used in the evaluation process of the different materials. 	<ul style="list-style-type: none"> The bulk densities for the ore and waste rock types were estimated using the Archimedes method, that is (Dry Weight / (Dry Weight – Wet Weight)). A density of 2.49 was assigned to the fresh ore material.
Classification	<ul style="list-style-type: none"> The basis for the classification of the Mineral Resources into varying confidence categories. Whether appropriate account has been taken of all relevant factors (ie relative confidence in tonnage/grade estimations, reliability of input data, confidence in continuity of geology and metal values, quality, quantity and distribution of the data). Whether the result appropriately reflects the Competent Person's view of the deposit. 	<ul style="list-style-type: none"> The resources have been classified according to the drill density and the modelled continuity of both the thickness and grade of the mineralized zones in the view of the competent geologist. Measured and Indicated blocks have been reported for the resource. The resource classification is deemed appropriate in relation to the drill spacing and geological continuity of the mineralized domains.
Audits or reviews	<ul style="list-style-type: none"> The results of any audits or reviews of Mineral Resource estimates. 	<ul style="list-style-type: none"> Stuart Hutchin has visited the Toongi site in 2016. The review involved a high level assessment of the exploration potential.
Discussion of relative accuracy/ confidence	<ul style="list-style-type: none"> Where appropriate a statement of the relative accuracy and confidence level in the Mineral Resource estimate using an approach or procedure deemed appropriate by the Competent Person. For example, the application of statistical or geostatistical procedures to quantify the relative accuracy of the resource within stated confidence limits, or, if such an approach is not deemed appropriate, a qualitative discussion of the factors that could affect the relative accuracy and confidence of the estimate. The statement should specify whether it relates to global or local estimates, and, if local, state the relevant tonnages, which should be relevant to technical and economic evaluation. Documentation should include assumptions made and the procedures used. These statements of relative accuracy and confidence of the estimate should be compared with production data, where available. 	<ul style="list-style-type: none"> The resource estimate is deemed to be an accurate reflection of both the geological interpretation and tenure of mineralization within the deposit.

JORC Code, 2012 Edition – Table 1 report
Section 4 Estimation and Reporting of Ore Reserves

(Criteria listed in section 1, and where relevant in sections 2 and 3, also apply to this section.)

Criteria	JORC Code explanation	Commentary										
Mineral Resource estimate for conversion to Ore Reserves	<ul style="list-style-type: none"> Description of the Mineral Resource estimate used as a basis for the conversion to an Ore Reserve. 	<p>The Mineral Resources are reported inclusive of the Mineral Resources used to define the Ore Reserves. The sub-celled Mineral Resource block model named 'toongi_model_dec16.mdl' was used for the pit optimisation. This model was produced by Stuart Hutchin of Mining One in December 2016. The Mineral Resource Estimate of this block model was reported in accordance with the JORC Code.</p>										
Site visits	<ul style="list-style-type: none"> Comment on any site visits undertaken by the Competent Person and the outcome of those visits. <p>(If no site visits have been undertaken indicate why this is the case.)</p>	<p>Ivan Ludjio visited the site 2nd of March 2017 and has met with relevant ASM personnel and the consultants.</p>										
Study status	<ul style="list-style-type: none"> The type and level of study undertaken to enable Mineral Resources to be converted to Ore Reserves. <p>(The Code requires that a study to at least Pre-Feasibility Study level has been undertaken to convert Mineral Resources to Ore Reserves. Such studies will have been carried out and will have determined a mine plan that is technically achievable and economically viable, and that material Modifying Factors have been considered.)</p>	<p>A Definitive Feasibility Study (DFS), prepared by TZ Minerals International Pty Ltd (TZMI), was completed in 2013 which built on previous studies prepared by TZMI in 2011 and SNC Lavalin in 2002. Subsequent studies and reports have been prepared by Hatch Pty Ltd in 2015, and then GHD in 2017.</p>										
Cut-off parameters	<ul style="list-style-type: none"> The basis of the cut-off grade(s) or quality parameters applied. 	<p>As the deposit is polymetallic, a block value script using all relevant parameters was used to code a block value into the resource model. Each block needs to have a block value greater than zero for it to be included in the Ore Reserves.</p> <p>For the price assumptions please see section "Costs" below.</p>										
Mining factors or assumptions	<ul style="list-style-type: none"> The method and assumptions used as reported in the Pre-Feasibility or Feasibility Study to convert the Mineral Resource to an Ore Reserve (i.e. either by application of appropriate factors by optimisation or by preliminary or detailed design). The choice, nature and appropriateness of the selected mining method(s) and other mining parameters including associated design issues such as pre-strip, access, etc. The assumptions made regarding geotechnical parameters (e.g. pit slopes, stope sizes, etc), grade control and pre-production drilling. The major assumptions made and Mineral Resource model used for pit and stope optimisation (if appropriate). The mining dilution factors used. The mining recovery factors used. Any minimum mining widths used. The manner in which Inferred Mineral Resources are utilised in mining studies and the sensitivity of the outcome to their inclusion. The infrastructure requirements of the selected mining methods. 	<p>The Dubbo Project (DP) is a polymetallic zirconia, hafnium, niobium, and rare earth metals deposit. It is planned that the operation use front end loaders and articulated trucks along with a fleet of auxiliary equipment.</p> <p>This proposed mining method is appropriate for the style and size of the mineralisation.</p> <p>As DP consists of a simple bulk massive style deposit with no internal waste, a mining recovery of 100% and mining dilution of 0% has been assumed.</p> <p>Pit slope geotechnical parameters:</p> <table border="1"> <thead> <tr> <th>Parameter^a</th> <th>Value^a</th> </tr> </thead> <tbody> <tr> <td>Batter-Angle^a</td> <td>55°^a</td> </tr> <tr> <td>IRSA^a</td> <td>40°^a</td> </tr> <tr> <td>Berm-width^a</td> <td>8m^a</td> </tr> <tr> <td>Bench-Height^a</td> <td>10m^a</td> </tr> </tbody> </table> <p>No Inferred material has been included in optimisation and/or Ore Reserves reporting.</p>	Parameter ^a	Value ^a	Batter-Angle ^a	55° ^a	IRSA ^a	40° ^a	Berm-width ^a	8m ^a	Bench-Height ^a	10m ^a
Parameter ^a	Value ^a											
Batter-Angle ^a	55° ^a											
IRSA ^a	40° ^a											
Berm-width ^a	8m ^a											
Bench-Height ^a	10m ^a											

Criteria	JORC Code explanation	Commentary																																				
<p>Metallurgical factors or assumptions</p>	<ul style="list-style-type: none"> <i>The metallurgical process proposed and the appropriateness of that process to the style of mineralisation.</i> <i>Whether the metallurgical process is well-tested technology or novel in nature.</i> <i>The nature, amount and representativeness of metallurgical test work undertaken, the nature of the metallurgical domaining applied and the corresponding metallurgical recovery factors applied.</i> <i>Any assumptions or allowances made for deleterious elements.</i> <i>The existence of any bulk sample or pilot scale test work and the degree to which such samples are considered representative of the ore body as a whole.</i> <i>For minerals that are defined by a specification, has the ore reserve estimation been based on the appropriate mineralogy to meet the specifications?</i> 	<p>Ore is crushed and screened with the dry ground ore then mixed with sulphuric acid and roasted to form sulphated solids. The sulphated solids are subjected to quenching to extract zirconium, niobium and rare earth sulphates as well as impurity elements leaching in the water into solution. The leach slurry is washed in two stages of counter current decantation (CCD) thickeners, each stage comprising four thickeners. The CCD circuit separates the light rare earth (LRE) bearing solution from the zirconium/niobium/heavy rare earth (HRE) solution. Separation of zirconium, niobium and HRE takes place in the solvent extraction (SX) circuit.</p> <p>The various products are then separated and refined in separate treatment circuits to produce the zirconium and niobium products and intermediate products for the heavy rare earth and light rare earth products.</p> <p style="text-align: center;">Metallurgical Recoveries:</p> <table border="0" style="margin-left: auto; margin-right: auto;"> <tr><td>Lanthanum Oxide</td><td style="text-align: right;">80.1%</td></tr> <tr><td>Cerium Oxide</td><td style="text-align: right;">69.8%</td></tr> <tr><td>Praseodymium Oxide</td><td style="text-align: right;">66.7%</td></tr> <tr><td>Neodymium Oxide</td><td style="text-align: right;">74.5%</td></tr> <tr><td>Samarium Oxide</td><td style="text-align: right;">51.2%</td></tr> <tr><td>Europium Oxide</td><td style="text-align: right;">42.3%</td></tr> <tr><td>Gadolinium Oxide</td><td style="text-align: right;">56.9%</td></tr> <tr><td>Terbium Oxide</td><td style="text-align: right;">47.5%</td></tr> <tr><td>Dysprosium Oxide</td><td style="text-align: right;">67.4%</td></tr> <tr><td>Holmium Oxide</td><td style="text-align: right;">59.3%</td></tr> <tr><td>Erbium Oxide</td><td style="text-align: right;">74.0%</td></tr> <tr><td>Thulium Oxide</td><td style="text-align: right;">38.6%</td></tr> <tr><td>Ytterbium Oxide</td><td style="text-align: right;">69.9%</td></tr> <tr><td>Lutetium Oxide</td><td style="text-align: right;">26.0%</td></tr> <tr><td>Yttrium oxide</td><td style="text-align: right;">74.3%</td></tr> <tr><td>Zirconium Oxide</td><td style="text-align: right;">84.4%</td></tr> <tr><td>Hafnium Oxide</td><td style="text-align: right;">50.0%</td></tr> <tr><td>Niobium Oxide</td><td style="text-align: right;">61.2%</td></tr> </table>	Lanthanum Oxide	80.1%	Cerium Oxide	69.8%	Praseodymium Oxide	66.7%	Neodymium Oxide	74.5%	Samarium Oxide	51.2%	Europium Oxide	42.3%	Gadolinium Oxide	56.9%	Terbium Oxide	47.5%	Dysprosium Oxide	67.4%	Holmium Oxide	59.3%	Erbium Oxide	74.0%	Thulium Oxide	38.6%	Ytterbium Oxide	69.9%	Lutetium Oxide	26.0%	Yttrium oxide	74.3%	Zirconium Oxide	84.4%	Hafnium Oxide	50.0%	Niobium Oxide	61.2%
Lanthanum Oxide	80.1%																																					
Cerium Oxide	69.8%																																					
Praseodymium Oxide	66.7%																																					
Neodymium Oxide	74.5%																																					
Samarium Oxide	51.2%																																					
Europium Oxide	42.3%																																					
Gadolinium Oxide	56.9%																																					
Terbium Oxide	47.5%																																					
Dysprosium Oxide	67.4%																																					
Holmium Oxide	59.3%																																					
Erbium Oxide	74.0%																																					
Thulium Oxide	38.6%																																					
Ytterbium Oxide	69.9%																																					
Lutetium Oxide	26.0%																																					
Yttrium oxide	74.3%																																					
Zirconium Oxide	84.4%																																					
Hafnium Oxide	50.0%																																					
Niobium Oxide	61.2%																																					
<p>Environmental</p>	<ul style="list-style-type: none"> <i>The status of studies of potential environmental impacts of the mining and processing operation. Details of waste rock characterisation and the consideration of potential sites, status of design options considered and, where applicable, the status of approvals for process residue storage and waste dumps should be reported.</i> 	<p>An Environmental Protection Licence (EPL 20702) was issued in March 2016 by the NSW Environment Protection Authority. This licence allows ASM to undertake Scheduled Development Works for the establishment of the Dubbo Project</p> <p>To minimise impacts on the endangered Pink-tailed Worm-Lizard, the Stage 1 of the open pit will be mined in two separate cutbacks. The western section of the open pit will be mined in the first 10 years with the eastern portion mined in the following 10 years. Extraction of both ore and waste will occur by bench,</p>																																				

Criteria	JORC Code explanation	Commentary
<p>Infrastructure</p>	<ul style="list-style-type: none"> <i>The existence of appropriate infrastructure: availability of land for plant development, power, water, transportation (particularly for bulk commodities), labour, accommodation; or the ease with which the infrastructure can be provided, or accessed.</i> 	<p>in line with the mining phases defined to address the environmental concerns.</p> <p>In order for mining, processing and product transportation to be undertaken, in addition to the standard infrastructure requirements, the following off-site infrastructure and other site features would first need to be established:</p> <ul style="list-style-type: none"> Upgrades and construction of road and bridges network including curve realignment, pavement upgrades and upgrades to creek crossings on Obley and Toongi Roads; Installation of a Western Plains Zoo noise barrier along a 1 km section of the Obley Road; Installation of a pumping station located at the Macquarie River and a 7 km water pipe to deliver raw water to the site; A natural gas pipeline within the Toongi-Dubbo Rail and Gas Pipeline Corridor; Installation of a new single circuit 132 kV overhead transmission line to supply HV power to site from Geurie sub-station; and <p>Construction of a range of water management and retention structures within the DP site.</p>
<p>Costs</p>	<ul style="list-style-type: none"> <i>The derivation of, or assumptions made, regarding projected capital costs in the study.</i> <i>The methodology used to estimate operating costs.</i> <i>Allowances made for the content of deleterious elements.</i> <i>The source of exchange rates used in the study.</i> <i>Derivation of transportation charges.</i> <i>The basis for forecasting or source of treatment and refining charges, penalties for failure to meet specification, etc.</i> <i>The allowances made for royalties payable, both Government and private.</i> 	<p>Costs used in the determination of the Ore Reserves have been sourced from the following documents:</p> <ul style="list-style-type: none"> Project Capital Estimate - Hatch Pty Ltd, 'Addendum to FEED Services Report, H346794-00000-00-124-0007', 15th June 2015 Site General & Administration - Hatch Pty Ltd, 'FEED Services Report, H346794-00000-00-124-0006', 21st August 2015 Processing (excluding SRSF costs) - Hatch Pty Ltd, 'FEED Services Report, H346794-00000-00-124-0006', 21st August 2015 SRSF Costs – 'GHD Memorandum 'Concept Design – Cost Estimate, Andrew Simmons, February 2017. Mining Costs – 'Dubbo Zirconia Project Budget Mining Costs Owner Operator Model, by Glastonbury Mining Consultants in 2013
<p>Revenue factors</p>	<ul style="list-style-type: none"> <i>The derivation of, or assumptions made regarding revenue factors including head grade, metal or commodity price(s) exchange rates, transportation and treatment charges, penalties, net smelter returns, etc.</i> <i>The derivation of assumptions made of metal or commodity price(s), for the principal metals, minerals and co-products.</i> 	<p>For cost assumptions see section above – "Costs"</p> <p>Alkane employs specialist consultants and specific industry contacts to maintain an interactive product pricing regime. The assumed commodity prices, reported in ASX Announcement on 27th of August 2015, are based on the anticipated 2020 prices.</p> <p>The following commodity prices were used (values are in USD/kg):</p>

Criteria	JORC Code explanation	Commentary																														
		<table border="0"> <tr><td>Praseodymium Oxide</td><td>\$80.00</td></tr> <tr><td>Neodymium Oxide</td><td>\$60.00</td></tr> <tr><td>Samarium Oxide</td><td>\$3.00</td></tr> <tr><td>Europium Oxide</td><td>\$300.00</td></tr> <tr><td>Gadolinium Oxide</td><td>\$20.00</td></tr> <tr><td>Terbium Oxide</td><td>\$650.00</td></tr> <tr><td>Dysprosium Oxide</td><td>\$350.00</td></tr> <tr><td>Holmium Oxide</td><td>\$40.00</td></tr> <tr><td>Erbium Oxide</td><td>\$40.00</td></tr> <tr><td>Ytterbium Oxide</td><td>\$30.00</td></tr> <tr><td>Lutetium Oxide</td><td>\$990.00</td></tr> <tr><td>Yttrium oxide</td><td>\$15.00</td></tr> <tr><td>Zirconium Oxide</td><td>\$8.27</td></tr> <tr><td>Hafnium Oxide</td><td>\$500.00</td></tr> <tr><td>Niobium Oxide</td><td>\$40.00</td></tr> </table>	Praseodymium Oxide	\$80.00	Neodymium Oxide	\$60.00	Samarium Oxide	\$3.00	Europium Oxide	\$300.00	Gadolinium Oxide	\$20.00	Terbium Oxide	\$650.00	Dysprosium Oxide	\$350.00	Holmium Oxide	\$40.00	Erbium Oxide	\$40.00	Ytterbium Oxide	\$30.00	Lutetium Oxide	\$990.00	Yttrium oxide	\$15.00	Zirconium Oxide	\$8.27	Hafnium Oxide	\$500.00	Niobium Oxide	\$40.00
Praseodymium Oxide	\$80.00																															
Neodymium Oxide	\$60.00																															
Samarium Oxide	\$3.00																															
Europium Oxide	\$300.00																															
Gadolinium Oxide	\$20.00																															
Terbium Oxide	\$650.00																															
Dysprosium Oxide	\$350.00																															
Holmium Oxide	\$40.00																															
Erbium Oxide	\$40.00																															
Ytterbium Oxide	\$30.00																															
Lutetium Oxide	\$990.00																															
Yttrium oxide	\$15.00																															
Zirconium Oxide	\$8.27																															
Hafnium Oxide	\$500.00																															
Niobium Oxide	\$40.00																															
Market assessment	<ul style="list-style-type: none"> <i>The demand, supply and stock situation for the particular commodity, consumption trends and factors likely to affect supply and demand into the future.</i> <i>A customer and competitor analysis along with the identification of likely market windows for the product.</i> <i>Price and volume forecasts and the basis for these forecasts.</i> <i>For industrial minerals the customer specification, testing and acceptance requirements prior to a supply contract.</i> 	<p>The output of the various products planned to be produced by DP, is large enough to provide an alternative source of these critical metals, without being too large to affect the supply and demand balance. Markets for each of the DP products are separate but related, and have experienced high annual growth rates of between 7%-10%. The high growth rates are due to the rapid industrial and social development of countries such as China, where GDP is growing strongly and the intensity of use of critical metals is increasing from a low base compared to western industrialised economies.</p>																														
Economic	<ul style="list-style-type: none"> <i>The inputs to the economic analysis to produce the net present value (NPV) in the study, the source and confidence of these economic inputs including estimated inflation, discount rate, etc.</i> <i>NPV ranges and sensitivity to variations in the significant assumptions and inputs.</i> 	<p>The costs used in the economic valuation are based on detailed studies mentioned in the "Costs" section of this table. They all have a level of confidence to be included in the Ore Reserve as per the requirements listed in the 2012 JORC Code.</p> <p>The inputs that inform the economic analysis include all foreseeable operating and capital costs, resulting in a positive NPV for the Ore Reserve. A discount rate appropriate to the size and nature of the organisation and deposit has been used in the determination</p>																														
Social	<ul style="list-style-type: none"> <i>The status of agreements with key stakeholders and matters leading to social licence to operate.</i> 	<p>As part of the 2012 DFS, a study on the social impact of the project determined that the project would have an overall beneficial impact on the surrounding local communities.</p>																														
Other	<ul style="list-style-type: none"> <i>To the extent relevant, the impact of the following on the project and/or on the estimation and classification of the Ore Reserves:</i> <i>Any identified material naturally occurring risks.</i> <i>The status of material legal agreements and marketing arrangements.</i> 	<p>All government agreements and approvals required to realise the Ore Reserves are current and will be in place until the end of mine life.</p>																														

Criteria	JORC Code explanation	Commentary
	<ul style="list-style-type: none"> The status of governmental agreements and approvals critical to the viability of the project, such as mineral tenement status, and government and statutory approvals. There must be reasonable grounds to expect that all necessary Government approvals will be received within the timeframes anticipated in the Pre-Feasibility or Feasibility study. Highlight and discuss the materiality of any unresolved matter that is dependent on a third party on which extraction of the reserve is contingent. 	
Classification	<ul style="list-style-type: none"> The basis for the classification of the Ore Reserves into varying confidence categories. Whether the result appropriately reflects the Competent Person's view of the deposit The proportion of Probable Ore Reserves that have been derived from Measured Mineral Resources (if any). 	<p>The Ore Reserves classification is based on the JORC 2012 requirements. The basis for the classification was the Mineral Resource classification and economic cut-off grade.</p>
Audits or reviews	<ul style="list-style-type: none"> The results of any audits or reviews of Ore Reserve estimates. 	<p>No Ore Reserve audits have been carried out, however Internal Peer Review has been carried out as part of this Ore Reserves Estimate</p>
Discussion of relative accuracy/confidence	<ul style="list-style-type: none"> Where appropriate a statement of the relative accuracy and confidence level in the Ore Reserve estimate using an approach or procedure deemed appropriate by the Competent Person. For example, the application of statistical or geostatistical procedures to quantify the relative accuracy of the reserve within stated confidence limits, or, if such an approach is not deemed appropriate, a qualitative discussion of the factors which could affect the relative accuracy and confidence of the estimate. The statement should specify whether it relates to global or local estimates, and, if local, state the relevant tonnages, which should be relevant to technical and economic evaluation. Documentation should include assumptions made and the procedures used. Accuracy and confidence discussions should extend to specific discussions of any applied Modifying Factors that may have a material impact on Ore Reserve viability, or for which there are remaining areas of uncertainty at the current study stage. It is recognised that this may not be possible or appropriate in all circumstances. These statements of relative accuracy and confidence of the estimate should be compared with production data, where available. 	<p>The most significant factors affecting confidence in the Ore Reserves are:</p> <ul style="list-style-type: none"> Although previous DFS's and other studies have been prepared to a sufficient level of confidence, variation in the capital, operating costs, and market fluctuations will have an impact on the project economics. Traditionally as a result of their similar chemical properties, REE metals are extremely difficult to separate from each other. The technical metallurgical assumptions may differ once the plant is operating affecting the project economics.

ANNEXURE 3

Independent Expert's Report



ALKANE RESOURCES LIMITED
Independent Expert's Report

8 June 2020



Financial Services Guide

8 June 2020

BDO Corporate Finance (WA) Pty Ltd ABN 27 124 031 045 ('we' or 'us' or 'ours' as appropriate) has been engaged by Alkane Resources Limited ('Alkane') to provide an independent expert's report on the proposed demerger of its critical materials division, including the Dubbo Project and other related assets, through an in-specie distribution. You are being provided with a copy of our report because you are a shareholder of Alkane and this Financial Services Guide ('FSG') is included in the event you are also classified under the Corporations Act 2001 ('the Act') as a retail client.

Our report and this FSG accompanies the demerger booklet ('Demerger Booklet') required to be provided to you by Alkane to assist you in deciding on whether or not to approve the proposal.

Financial Services Guide

This FSG is designed to help retail clients make a decision as to their use of our general financial product advice and to ensure that we comply with our obligations as a financial services licensee.

This FSG includes information about:

- ◆ Who we are and how we can be contacted;
- ◆ The services we are authorised to provide under our Australian Financial Services Licence No. 316158;
- ◆ Remuneration that we and/or our staff and any associates receive in connection with the general financial product advice;
- ◆ Any relevant associations or relationships we have; and
- ◆ Our internal and external complaints handling procedures and how you may access them.

Information about us

We are a member firm of the BDO network in Australia, a national association of separate entities (each of which has appointed BDO (Australia) Limited ACN 050 110 275 to represent it in BDO International). The financial product advice in our report is provided by BDO Corporate Finance (WA) Pty Ltd and not by BDO or its related entities. BDO and its related entities provide professional services primarily in the areas of audit, tax, consulting, mergers and acquisition, and financial advisory services.

We and BDO (and its related entities) might from time to time provide professional services to financial product issuers in the ordinary course of business and the directors of BDO Corporate Finance (WA) Pty Ltd may receive a share in the profits of related entities that provide these services.

Financial services we are licensed to provide

We hold an Australian Financial Services Licence that authorises us to provide general financial product advice for securities to retail and wholesale clients, and deal in securities for wholesale clients. The authorisation relevant to this report is general financial product advice.

When we provide this financial service we are engaged to provide an expert report in connection with the financial product of another person. Our reports explain who has engaged us and the nature of the report we have been engaged to provide. When we provide the authorised services we are not acting for you.

General Financial Product Advice

We only provide general financial product advice, not personal financial product advice. Our report does not take into account your personal objectives, financial situation or needs. You should consider the appropriateness of this general advice having regard to your own objectives, financial situation and needs before you act on the advice. If you have any questions, or don't fully understand our report you should seek professional financial advice.

Fees, commissions and other benefits that we may receive

We charge fees for providing reports, including this report. These fees are negotiated and agreed with the person who engages us to provide the report. Fees are agreed on an hourly basis or as a fixed amount depending on the terms of the agreement. The fee payable to BDO Corporate Finance (WA) Pty Ltd for this engagement is approximately \$28,000.

Except for the fees referred to above, neither BDO, nor any of its directors, employees or related entities, receive any pecuniary benefit or other benefit, directly or indirectly, for or in connection with the provision of the report and our directors do not hold any shares in Alkane.

Remuneration or other benefits received by our employees

All our employees receive a salary. Our employees are eligible for bonuses based on overall productivity but not directly in connection with any engagement for the provision of a report. We have received a fee from Alkane for our professional services in providing this report. That fee is not linked in any way with our opinion as expressed in this report.

Referrals

We do not pay commissions or provide any other benefits to any person for referring customers to us in connection with the reports that we are licensed to provide.

Complaints resolution

Internal complaints resolution process

As the holder of an Australian Financial Services Licence, we are required to have a system for handling complaints from persons to whom we provide financial product advice. All complaints must be in writing addressed to The Complaints Officer, BDO Corporate Finance (WA) Pty Ltd, PO Box 700 West Perth WA 6872.

When we receive a written complaint we will record the complaint, acknowledge receipt of the complaint within 15 days and investigate the issues raised. As soon as practical, and not more than **45 days** after receiving the written complaint, we will advise the complainant in writing of our determination.

Referral to External Dispute Resolution Scheme

A complainant not satisfied with the outcome of the above process, or our determination, has the right to refer the matter to the Australian Financial Complaints Authority ('AFCA').

AFCA is an external dispute resolution scheme that deals with complaints from consumers in the financial system. It is a not-for-profit company limited by guarantee and authorised by the responsible federal minister. AFCA was established on 1 November 2018 to allow for the amalgamation of all Financial Ombudsman Service ('FOS') schemes into one. AFCA will deal with complaints from consumers in the financial system by providing free, fair and independent financial services complaint resolution. If an issue has not been resolved to your satisfaction you can lodge a complaint with AFCA at any time.

Our AFCA Membership Number is 12561. Further details about AFCA are available on its website www.afca.org.au or by contacting it directly via the details set out below.

Australian Financial Complaints Authority
GPO Box 3
Melbourne VIC 3001
AFCA Free call: 1800 931 678
Website: www.afca.org.au
Email: info@afca.org.au

You may contact us using the details set out on page 1 of the accompanying report.

TABLE OF CONTENTS

1.	Introduction	1
2.	Summary and Opinion	1
3.	Scope of the Report	3
4.	Outline of the Demerger	5
5.	Profile of Alkane	8
6.	Economic analysis	23
7.	Industry analysis	24
8.	Do the advantages of the Demerger outweigh the disadvantages?	33
9.	Conclusion	38
10.	Sources of information	38
11.	Independence	39
12.	Qualifications	40
13.	Disclaimers and consents	40

Appendix 1 - Glossary and copyright notice

© 2020 BDO Corporate Finance (WA) Pty Ltd



Tel: +61 8 6382 4600
Fax: +61 8 6382 4601
www.bdo.com.au

38 Station Street
Subiaco, WA 6008
PO Box 700 West Perth WA 6872
Australia

8 June 2020

The Directors
Alkane Resources Limited
89 Burswood Road
Burswood, WA, 6100

Dear Directors

INDEPENDENT EXPERT'S REPORT

1. Introduction

The board of directors (**'the Directors'**) of Alkane Resources Limited (**'Alkane'** or **'the Company'**) has resolved to propose a demerger (**'Proposed Transaction'** or **'Demerger'**) of the Company's wholly owned subsidiary, Australian Strategic Materials Limited (**'ASM'**), as a separate listed entity on the Australian Securities Exchange (**'ASX'**).

ASM represents the critical materials division within the business of Alkane, and is the entity which holds the Dubbo Project, a zirconium and rare earth metals project situated in Central Western New South Wales (**'NSW'**). Alkane also holds a well-established gold mining division, which holds the Tomingley Gold Project and other regional exploration projects (see Section 5 of our Report for more information).

The Demerger will be completed via a distribution of ASM shares to all eligible shareholders of Alkane (**'Shareholders'**) in proportion to their existing shareholding in Alkane. Australian Strategic Materials Limited will be used as the new listed entity for the critical materials business.

When distributed, eligible Shareholders will own one ASM share for every five shares held in Alkane. (Alkane Shareholders whose addresses are shown in the Alkane Share Register on the Demerger Record Date as not being in Australia or New Zealand are Ineligible Shareholders for the purpose of the Demerger.)

In addition, Alkane will provide ASM with \$20.0 million of cash for working capital purposes and will not retain any interest in ASM post-Demerger.

Further details of the Demerger are outlined in Section 4 of our Report. All figures in this report are stated in Australian dollars (**'A\$'** and **'AUD'**) unless otherwise stated.

2. Summary and Opinion

2.1 Requirement for the report

The Directors of Alkane have requested that BDO Corporate Finance (WA) Pty Ltd (**'BDO'**) prepare an independent expert's report (**'our Report'**) to express an opinion as to whether or not the Demerger is in the best interests of Shareholders.

There is no requirement under ASX Listing Rules or the Corporations Act ('Corporations Act' or 'the Act') for Alkane to engage an independent expert in relation to the Demerger but it is considered best practice. Our Report is prepared to assist Shareholders in their decision whether to approve the Demerger and is to be included in the Demerger Booklet for Alkane.

2.2 Approach

Our Report has been prepared having regard to Australian Securities and Investments Commission ('ASIC') Regulatory Guide 111 'Content of Expert's Reports' ('RG 111') and Regulatory Guide 112 'Independence of Experts' ('RG 112').

We have analysed the structure and the substance of the Demerger and have concluded that the Demerger does not represent a change in the underlying economic interests of Shareholders with the exception of minor dilution to Shareholders' interest in Alkane and ASM from the vesting of certain performance rights (see Section 4 of our Report for more information).

This is on the basis that the assets to be held by Alkane and ASM following the Demerger are distinct groups of assets with no commonality, and the successful development of these projects or assets are not related to or dependant on each other. Ownership and use of the assets will also be completely segregated between Alkane and ASM following the Demerger. Our conclusion on the independence of assets held by the demerged entities is based on Company background information in Section 5 of our Report and is detailed in Section 8.1 of our Report.

Therefore, we consider the issue of 'value' to be of secondary importance and have instead provided an opinion as to whether or not the advantages of the Demerger outweigh the disadvantages (RG 111.36).

In arriving at our opinion, we have assessed the terms of the Demerger as outlined in the body of our Report. We have considered:

- The advantages of the Demerger;
- The disadvantages of the Demerger; and
- Other factors which we consider to be relevant to the Shareholders in their assessment of the Demerger.

2.3 Opinion

We have considered the terms of the Demerger as outlined in the body of this Report and the Demerger Booklet and in our opinion, the position of Shareholders if the Demerger is approved is more advantageous than the position if the Demerger is not approved and as such is in the best interest of Shareholders.

Our primary reason for this conclusion is that the gold and critical materials operations currently held by the Company are distinct and independent assets, with minimal benefit arising from being held together in one entity. Although the Demerger will result in an increase in corporate costs going forward, we consider this to be outweighed by the flexibility that Shareholders will receive in their choice of commodity exposure, which can be tailored to their respective portfolios. Furthermore, if the Demerger were to proceed, the focused leadership and management of two separate entities may accelerate the rate of development of the Tomingley Project and the Dubbo Project.

In addition, the Demerger is structured such that there is minimal dilution to the interest held by Shareholders with the exception of the dilution arising from the vesting of certain performance rights. An initial cash balance of \$20 million provided to ASM by Alkane as well as the capitalisation and forgiving of

intercompany loans between Alkane and ASM, reduces the need for ASM to raise capital upon its listing on the ASX, thus avoiding further dilution.

While some Shareholders may be concerned with whether the adverse impact of COVID-19 on capital markets justifies delaying or postponing the Demerger, we have also identified in Section 8.4.2 the potential benefit of the current strength of the gold market and gold price for Alkane as a standalone gold company.

The respective advantages and disadvantages considered are summarised below:

ADVANTAGES AND DISADVANTAGES			
Section	Advantages	Section	Disadvantages
8.2.1	Shareholder flexibility	8.3.1	Duplication of corporate costs going forward
8.2.2	Focused leadership and management	8.3.2	Transaction costs related to the Demerger
8.2.3	Potential opportunity for future takeover	8.3.3	Minor dilution of Shareholders' interests
8.2.4	Dedicated funding for ASM		

Other key matters we have considered include:

Section	Description
8.4.1	Potential movements in liquidity
8.4.2	Impact of COVID-19
8.4.3	Ineligible overseas shareholders
8.4.4	Taxation implications for shareholders

3. Scope of the Report

3.1 Purpose of the Report

There is no requirement under ASX Listing Rules, or Corporations Act or Regulations, for Alkane to engage an independent expert in relation to the Demerger.

Notwithstanding the above, Alkane engaged BDO to prepare this report for provisions to Shareholders to assist them in deciding whether or not to accept the Demerger.

3.2 Regulatory guidance

In determining the basis of our evaluation and opinion, we have had regard to the views expressed by ASIC in RG 111.

RG 111.35 and RG 111.36 suggests, in the case of a demerger, if there is not;

- a change in underlying economic interests of security holders;
- a change of control; or

- selective treatment of different security holders;
then the issue of 'value' may be of secondary importance.

An expert should provide an opinion as to whether the advantages of the demerger outweigh the disadvantages (RG 111.36). An expert may choose to consider whether the value of the demerged entities is greater than or less than the value of the existing entity.

RG 111.37 suggests that if the demerger involves a scheme of arrangement then the expert should comment on whether or not the demerger is in the best interest of security holders. RG 111.38 states that in a demerger, security holders will typically have to balance issues such as the benefits of a greater focus afforded to the demerged entities against increased costs and reduction in diversified earnings streams.

We have analysed the structure and the substance of the Demerger and have concluded that the Demerger does not represent a change in the underlying economic interests of Shareholders with the exception of minor dilution to Shareholders' interest in Alkane and ASM from the vesting of certain performance rights (see Section 4 of our Report for more information).

This is on the basis that the assets to be held by Alkane and ASM following the Demerger are distinct groups of assets with no commonality, and the successful development of these projects or assets are not related to or dependant on each other. Ownership and use of the assets will be completely segregated between Alkane and ASM post Demerger.

Furthermore, it is our understanding that the resources and reserves of Alkane and ASM have not been determined on the assumption that the assets will be developed together, and that the implementation of the Demerger will not change the underlying value of the resources and reserves. Our conclusion on the independence of assets held by the demerged entities is based on Company background information in Section 5 of our Report and is detailed in Section 8.1 of our Report.

Therefore, nothing has come to our attention that leads us to consider whether the value of the demerged entities is greater than or less than the value of the existing entity. Our opinion therefore addresses whether the advantages of the Demerger outweigh the disadvantages.

In determining whether the advantages of the Demerger outweigh the disadvantages, we have had regard to the views expressed by ASIC in RG 111. This Regulatory Guide suggests that an opinion as to whether the advantages of a transaction outweigh the disadvantages should focus on the purpose and outcome of the transaction, that is, the substance of the transaction rather than the legal mechanism to affect it.

RG 111 sets out that the expert should inquire whether further transactions are planned between the entity, the vendor or their associates and if any are contemplated determine if these are at arm's length. RG 111 also suggests that an expert should consider whether the transaction will deter the making of a takeover bid.

3.3 Adopted basis of evaluation

RG 111 suggests that the main purpose of an independent expert's report is to adequately deal with the concerns that could reasonably be anticipated of those persons affected by the transaction.

Having regard to RG 111, we have completed our Report as follows in order to arrive at our opinion as to whether the Demerger is in the best interests of shareholders:

- An investigation into the advantages and disadvantages of the Demerger (Sections 8.1 and 8.2); and

- An analysis of any other issues that could be reasonably anticipated to concern Shareholders as a result of the Demerger (Section 8.3).

4. Outline of the Demerger

The following section outlines a brief overview of the proposed Demerger and contains information that we consider relevant to our assessment. Any information relating to the Demerger not stated herein is detailed in the Demerger Booklet.

Overview

The Demerger will be completed via an in-specie distribution of ASM shares to all eligible Shareholders of Alkane, where each Shareholder will receive one ASM share for every five shares held in Alkane.

More specifically, ASM will undergo a capital restructure as part of the Demerger process, with existing intercompany loans capitalised or forgiven, resulting in ASM having one ordinary share for every five Alkane ordinary shares outstanding on the implementation date for the Demerger. This will deliver a 1:5 ratio for ASM when listed on the ASX.

Implementation of the Demerger is subject to the following conditions ('Conditions'):

- Alkane obtains shareholder approval for the Demerger resolution, in accordance with Division 1 of Part 2J.1, which contains Sections 256B and 256C, of the Corporations Act and rule [32.5(a)] of Alkane's constitution;
- The ASX approves the admission of ASM to the Official list of ASX and quotation of ASM shares on the ASX is granted, subject only to the Demerger becoming effective and such other conditions that may be acceptable to Alkane and ASM;
- All regulatory approvals which are necessary or, in the opinion of Alkane and ASM, desirable in connection with the Demerger are obtained;
- Alkane receiving a draft class ruling from the Australian Taxation Office ('ATO'), to its satisfaction, confirming that the Demerger will qualify for demerger tax relief; and
- The Alkane board remains of the view that the Demerger is in the best interests of Alkane as a whole, fair and reasonable to the Alkane Shareholders as a whole, and does not materially prejudice the Company's ability to pay its creditors.

Ineligible shareholders

Alkane shareholders with addresses on the Company's share register that reside outside of Australia or New Zealand are not eligible to receive ASM shares ('Ineligible Shareholders') under the Demerger due to the substantial costs of complying with the legal and regulatory requirements in various overseas jurisdictions. ASM shares that would have otherwise been distributed to Ineligible Shareholders will be transferred to a sale agency, which will sell the shares on the ASX, with net proceeds of the sale to be paid to the Ineligible Shareholders.

Board changes

The current board of Directors and senior management are outlined in Section 5.1 of our Report.

Following the Demerger, the respective boards of Alkane and ASM are outlined in the tables below:

Alkane Board	
Name	Position
Ian Gandel	Non-executive Chairman
Nicholas Earner	Managing Director
David Ian Chalmers	Technical Director
Anthony Lethlean	Non-executive Director
Gavin Smith	Non-executive Director
Dennis Wilkins	Company Secretary
James Carter	Joint Company Secretary

Source: Alkane Demerger Booklet.

ASM Board	
Name	Position
Ian Gandel	Non-executive Chairman
David Woodall	Managing Director
Nicholas Earner	Non-executive Director
David Ian Chalmers	Non-executive Director
Gavin Smith	Non-executive Director
Dennis Wilkins	Company Secretary

Source: Alkane Demerger Booklet.

Vesting of performance rights and impact on Shareholders' interests

In connection with the Demerger, as outlined in Section 4.7 of the Demerger Booklet, the Directors of Alkane propose that:

- All Alkane performance rights ('Rights') with Dubbo Project performance conditions will be cancelled; and
- All FY18 and FY19 Alkane Rights with a Total Shareholder Return ('TSR') performance condition will vest in full, thereby entitling the holder to one Alkane share for each Alkane Right exercised.

Subject to Shareholder approval, the above will result in the cancellation of 3,940,540 Rights and the vesting of 15,215,584 Rights. The Rights that vest will result in the addition of 15,215,584 shares to the pro-forma capital structure of Alkane.

Following the Demerger, the capital structure of Alkane and ASM will be as follows:

	Number of Shares
Capital Structure of Alkane	
Total shares on issue	580,033,307
Rights that vest	15,215,584
<i>Total Alkane shares on issue Post-Demerger</i>	<i>595,248,891</i>
Capital Structure of ASM	
1/5 of Alkane shares on issue Pre-Demerger	116,006,661

	Number of Shares
1/5 of Alkane shares from Rights that vest	3,043,117
<i>Total ASM shares on issue Post-Demerger</i>	<i>119,049,778</i>

Source: Alkane Demerger Booklet.

The impact of the vesting of Rights, though minimal, will result in a minor dilution to the interest held by Shareholders who are not holders of those Rights. We note however that this minimal dilution would have occurred independent of the Demerger if the performance conditions for the FY18 and FY19 TSR Rights had been met and the rights were to vest in accordance with the existing vesting conditions. We have depicted an example of the potential dilution to Shareholders, through a hypothetical Shareholder 'X', who currently holds a 1.00% interest in Alkane pre-Demerger and is not a holder of the Rights to be vested:

Shareholder 'X'	
<i>Pre-Demerger</i>	
Number of Alkane (merged) Shares held	5,800,000
Total number of Alkane Shares outstanding	580,033,307
Interest in Alkane (%)	1.00%
<i>Post-Demerger</i>	
Number of Alkane (demerged) Shares held	5,800,000
Total number of Alkane Shares outstanding	595,248,891
Interest in Alkane (%)	0.97%
Number of ASM Shares held	1,160,000
Total number of ASM Shares outstanding	119,049,778
Interest in Alkane (%)	0.97%

Source: BDO analysis.

We have included the analysis above in our assessment of disadvantages to the proposed Demerger in Section 8.3.3 of our Report.

Pro-forma financial information

Alkane has provided ASM with \$20.0 million of cash on 1 April 2020 for ASM's working capital purposes and ongoing operations. Following the Demerger, Alkane will not retain any interest in ASM.

Furthermore, as part of the Demerger, all intercompany loans between Alkane and ASM will either be capitalised or forgiven, such that ASM will hold no debt following the Demerger. The pro-forma financial information of Alkane and ASM post-Demerger is detailed in Sections 5 and 7 of the Demerger Booklet.

Demerger transaction documents

As part of the implementation of the Demerger, Alkane and ASM propose to enter into a demerger deed ('**Demerger Deed**') and restructure deed ('**Restructure Deed**') in addition to an intercompany services agreement ('**ISA**') already entered into by both parties, effective as at 1 April 2020 ('**Demerger Transaction Documents**').

The Demerger Deed deals with the issues arising in connection with the Demerger and separation of ASM from Alkane, and the ongoing relationship between Alkane and ASM after the implementation of the Demerger, such that each part may carry forward the commercial benefits, risks and liabilities of the relevant business independently without shared liability.

The Restructure Deed deals with the multiple intra group restructuring steps that must be implemented prior to the Demerger with respect to various existing intercompany loans between Alkane and ASM. It is under the Restructure Deed, which outlines the deed of forgiveness to forgive the portion of intercompany loans owed by ASM to Alkane that will not be capitalised prior to the implementation of the Demerger.

The ISA deals with the provision of professional and IT support services, as well as access to certain office facilities between Alkane and ASM following the Demerger.

Further details on the Demerger Transaction Documents are found in Section 8.6 of the Demerger Booklet.

5. Profile of Alkane

The following section contains an analysis of the Company's operations with specific regard to its gold and critical materials divisions. Our analysis aims to assist with the determination of the level of commonality of the assets held under each division. This assessment is outlined in Section 8.1 of our Report.

5.1 History

Alkane is an ASX-listed, multi-commodity mining and exploration company, operating in the Central West region of NSW, Australia. The Company's operations can be categorised into its gold and critical materials divisions. The Company's flagship project within its gold division is its 100%-owned Tomingley Gold Project ('**Tomingley Project**') which it acquired as part of a joint venture with Compass Resources NL ('**Compass Resources**') in 2001. The Company's flagship project within its critical materials division is the Dubbo Project, which holds zirconium, hafnium, niobium, tantalum, yttrium and rare earth deposits. The exploration permits of the Dubbo Project were granted in 1987.

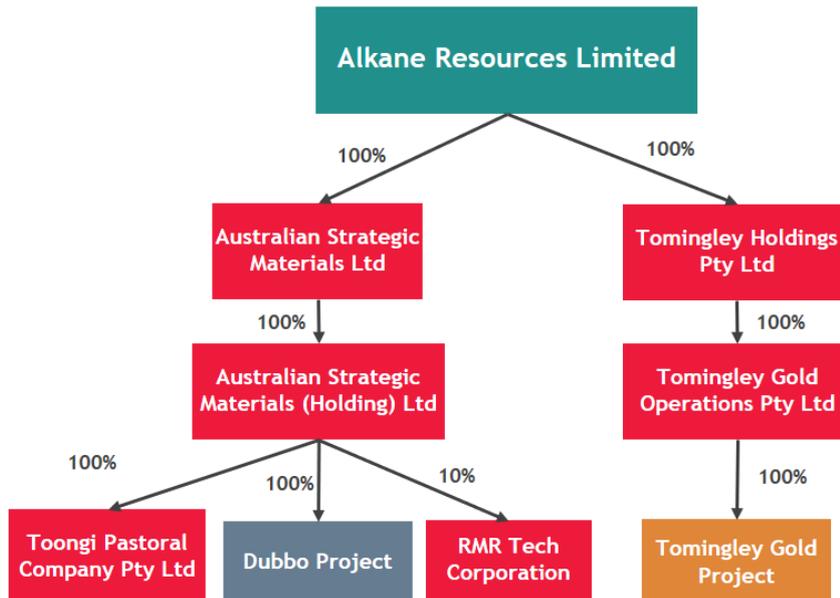
The Company also holds several exploration projects around the region, with the objective of identifying additional resources for processing at the Tomingley Project. Alkane was incorporated in 1969 and is headquartered in Burswood, Australia.

The current board of directors and senior management of Alkane are:

- Mr. Ian Gandel - Non-Executive Chairman;
- Mr. Nicholas Earner - Managing Director of Alkane;
- Mr. David Ian Chalmers - Technical Director;
- Mr. Anthony Dean Lethlean - Non-Executive Director;
- Mr. Gavin Smith - Non-Executive Director;
- Mr. Dennis Wilkins - Company Secretary; and
- Mr. James Carter - Chief Financial Officer and Joint Company Secretary.

5.2 Corporate Structure

The corporate structure of the Company is depicted in the diagram below:



Source: FY19 Annual Report.

Toongi Pastoral Company Pty Limited (**'Toongi Pastoral'**) was established by Alkane in 2016 to manage agricultural land, farm assets and biodiversity offset areas associated with the Dubbo Project. The establishment of Toongi Pastoral was part of Alkane's approach towards conservation and land management in relation the Dubbo Project.

RMR Tech Corporation (**'RMR Tech'**) is a South Korean entity, which was established as a result of an incorporated joint venture for the development of a new metallisation technology process (see Section 5.4.2 for details). ASM holds a 10% interest in the entity.

5.3 Gold Operations

From 1996 to 2002, Alkane's primary gold operation was the Peak Hill Gold Mine (**'Peak Hill Project'**), which operated as an open cut mine 15 kilometres south of the Tomingley Project. Mining operations at the Peak Hill Project have since been completed in 2002 and the mine is currently under care and maintenance. Using a heap leach operation, the Peak Hill Project produced approximately 154,000 ounces of gold from 4.7 million tonnes of ore. Following the closure of the Peak Hill Project, the Company shifted its focus on the development of the Tomingley Project, which has now become the flagship asset of Alkane's gold operations.

With the recent strengthening of the gold market, Alkane has placed greater focus on its gold production, exploration and partnerships in recent years. The Company's gold operations can be further categorised into the following segments:

- The Tomingley Project - main gold-producing asset;
- Regional exploration projects - exploration for gold and other commodities within the region; and
- ASX gold investments - investments and partnerships with prospective gold assets.

5.3.1. Tomingley Gold Project

The Tomingley Project is located approximately 50 kilometres south-west of Dubbo in Central West NSW and is held by Alkane's wholly owned subsidiary, Tomingley Gold Operations Pty Ltd ('TGO'). Mining operations at the Tomingley Project in the form of open cut mines commenced in early 2014 at four gold deposits: Wyoming One, Wyoming Three, Caloma One and Caloma Two. The gold processing plant at the Tomingley Project was also commissioned in January 2014 and has been operating at a design capacity of 1 Mtpa since late May 2014.

Following the completion of the Wyoming Three and Caloma One open cuts in 2015 and 2017 respectively, mining at the Wyoming One and Caloma Two open cuts ceased in FY19. This has resulted in the commencement of the Company's transition to an underground mining development at the Wyoming One deposit.

The development of underground mining operations was approved by the board of Alkane in September 2018, with an initial target of 108,000 oz of gold to be mined. Development work on the underground mine commenced in January 2019 with the purchase of necessary equipment and the recruitment of qualified personnel. Based on the Company's latest JORC 2012 resource and reserve estimate announced on 23 September 2019, the underground operations of the Tomingley Project hold approximately 165,000 oz of gold resources and 74,000 oz of gold reserves.

Alkane recorded total gold poured of 48,969 oz in FY19 primarily from medium and low-grade ore stockpiles. This is compared to the 78,533 oz in FY18 and 68,836 oz in FY17. The Company aims to commence gold production from underground ore in early 2020.

5.3.2. Regional exploration projects

Concurrent with transition to underground mining operations, Alkane has been focused on exploration around the region to increase its gold resource for its 1 Mtpa processing facility.

Tomingley Corridor

One such area is the gold corridor between the Tomingley Project and the Peak Hill Project ('Tomingley Corridor'), whereby the Company has conducted drilling programs comprising of reverse circulation ('RC') drilling and diamond core drilling. In July 2019, the Company announced a potential quantity of 15.8 Mt to 23.8 Mt at a grade ranging between 1.7 g/t to 2.2 g/t gold across the Roswell, El Paso and San Antonio prospects within the Tomingley Corridor.

On 28 January 2020, Alkane announced an initial inferred resource at the Roswell prospect of 445,000 oz as a result of the ongoing resource definition drilling program on the Roswell and San Antonio prospects. Further on 20 April 2020, Alkane announced an initial inferred resource at the San Antonio prospect of 453,000 oz of gold.

On 11 May 2020, Alkane announced that the NSW Government Resources Regulator granted approval for the development of an underground exploration drive from its existing Wyoming One operations to the Roswell and San Antonio deposits, which allows the Company to potentially conduct underground mining operations at Roswell and San Antonio, independently of an open cut operation.

Peak Hill

The Company also re-evaluated the potential of the Peak Hill Project and completed a revised JORC 2012 mineral resource estimate in October 2018, which identified an initial inferred resource of 108,000 oz of gold. Although Alkane has retained its mining lease and environment protection license for the Peak Hill Project, any further mine development would require further environmental assessment and government approval.

Northern Molong Porphyry Project ('NMPP')

The NMPP covers an area of 110 km² and encompasses three exploration licenses: Bodangora ('Boda'), Kaiser and Finns Crossing. The Company executed RC and diamond core drilling at these prospects in May to August 2019.

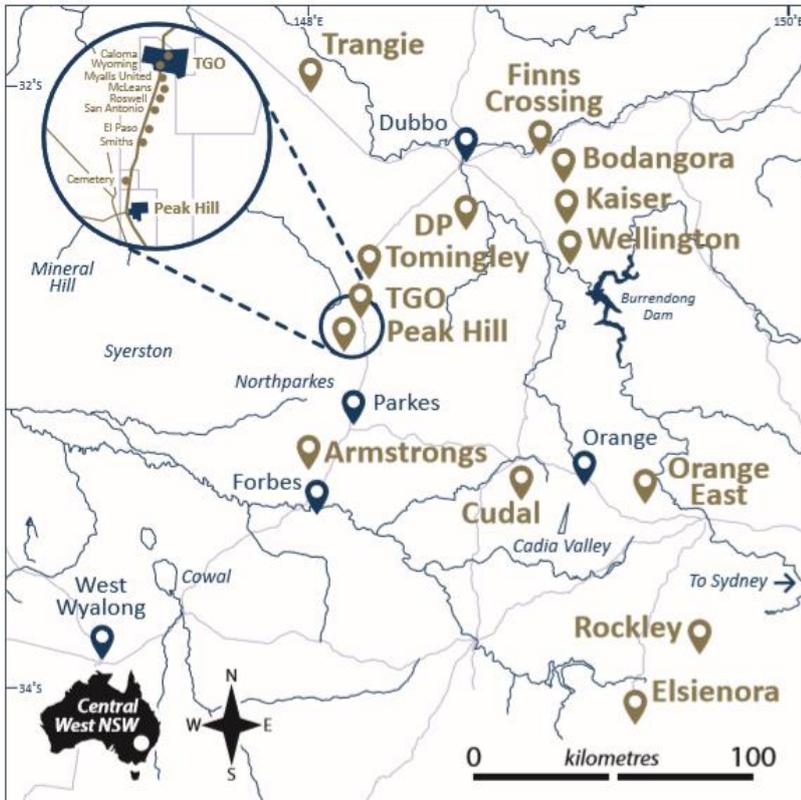
On 9 September 2019, Alkane announced the discovery of significant porphyry style gold-copper mineralisation at the Boda prospect, implying the potential for large porphyry gold-copper deposits in the area. Subsequently on 14 November 2019, the Company announced a follow up drilling program of five core holes totalling approximately 5,000 metres to commence at Boda. Since then the Company has announced array results of the five diamond core drill holes, KSDD005, KSDD006, KSDD007, KSDD008 and most recently on 19 May 2020, KSDD009, which have indicated significant gold-copper mineralisation at Boda. The Company has planned for a major RC and diamond core drilling program to commence in the third quarter of 2020 to further test the resource potential at Boda.

Other Exploration Areas

The Company also holds other prospective exploration areas for which significant field work and drilling have yet to commence. These areas and the degree of ownership held by Alkane are outlined below:

- Rockley- 100%;
- Cudal - 100%;
- Elsenora - 100%;
- Wellington - 100%;
- Mount Conqueror - 100%;
- Gundong - 100%;
- Armstrongs - 100%;
- Trangie - 100%; and
- Leinster Region Joint Venture - 19.4% diluting.

An overview of Alkane's gold assets and exploration areas is outlined below:



Source: FY19 Annual Report.

5.3.3. ASX Gold Investments

Alkane also holds significant interests in two ASX-listed gold explorers, Calidus Resources Limited ('Calidus') and Genesis Minerals Limited ('Genesis') as part of its strategic objective to grow its gold operations.

The Company currently holds a 13.0% interest on an undiluted basis in Calidus. Calidus is an ASX-listed gold exploration company which holds the Warrawoona Gold Project, located in the Pilbara Goldfield region in Western Australia. The Warrawoona Gold Project includes a 712,000 oz resource and is in a position to progress through feasibility.

The Company also currently holds a 15.51% interest on an undiluted basis in Genesis, which is currently the largest shareholding in Genesis. Genesis is an ASX-listed gold exploration company which holds the Ulysses Gold Project located 30 km south of Leonora with 867,000 oz of gold resource. Alkane's managing director, Nicholas Earner, was also appointed as a non-executive director of Genesis in October 2019.

5.4 Critical Materials Operations

5.4.1. Dubbo Project

The Company's critical materials operations are centred on the Dubbo Project, which is located near the village of Toongi, 25 km south of Dubbo in Central Western NSW. The Dubbo Project is held by Alkane's wholly owned subsidiary, ASM and holds a large in-ground resource of zirconium, hafnium, niobium, yttrium and rare earth elements, which are rare metals used in a range of advanced technologies.

The Dubbo Project is a construction-ready project with the major state and federal approvals and licenses in place, along with an established process flowsheet. Commencement of construction is subject to project financing which the Company aims to achieve by first converting its existing Memoranda of Understanding ('MoU') and Letters of Intent ('LoI') into offtake agreements.

On 4 June 2018, the Company announced an engineering and financial review for the Dubbo Project, which provided an update to the existing results of the Front End Engineering Design ('FEED') study completed in August 2015. The review outlined an initial base case project life of 20 years with a 1 Mtpa plant feed rate, which may generate a potential \$4.7 billion in undiscounted free cash flows over the life of the project. This is based on a revised JORC 2012 mineral resource and reserve estimate of 75.18 Mt of resources and 18.90 Mt of proven reserves announced on 19 September 2017. The review also outlined a two-staged build scenario of 500,000 Mtpa each, with potential undiscounted free cash flows of \$3.9 billion over the life of the project.

ASM owns a demonstration pilot plant ('DPP') that was commissioned at ANSTO Minerals in 2008. ANSTO Minerals is a business unit of the Australian Nuclear Science and Technology Operations ('ANSTO') and is one of Australia's premier research facilities. The DPP was designed to explore potential downstream metal conversion technologies in order to establish the process flow sheet and conduct process trials for the Dubbo Project. In 2015, ASM and ANSTO developed a process pathway to recover hafnium from the zirconium circuit which resulted in higher-purity zirconium products. Subsequently from 2015 to 2018, ASM invested more than \$4 million in research and process trials to establish the current process flow sheet for the Dubbo Project.

5.4.2. RMR Tech

On 6 June 2019, Alkane announced that it had executed a binding agreement with Zirconium Technology Corporation ('ZTC'), a South Korean company, to fund the final stage research and feasibility in relation to a clean metal process to convert metal oxide (including key Dubbo Project metals) to metals of high marketable purity. The metallisation technology was developed by scientists at Chungnam National University ('CNU') in South Korea, whom ASM has been working with since 2014. The agreement resulted in the establishment of RMR Tech, owned 90% by ZTC and 10% by ASM.

Under the agreement with ZTC, ASM invested US\$1.2 million towards a pilot plant facility located at CNU and will supply Dubbo Project metallic oxide samples for processing. ASM also holds exclusive global rights to use the metallisation technology at a commercial scale in relation to all relevant metals.

5.5 Recent Corporate Events

On 23 December 2019, Alkane announced a capital raising comprising a \$20.00 million institutional placement and a non-renounceable rights issue to fund an accelerated exploration and development program in the Tomingley Corridor. The rights issue was completed on the basis of one new share for every eight shares held by eligible Shareholders, at an issue price of \$0.55 per share to raise up to \$34.79 million. At completion, proceeds of \$20.67 million had been raised, representing a 59.4% take up. Together with the \$20.00 million raised from the institutional placement, Alkane raised a total of \$40.67 million. The non-renounceable rights issue was not underwritten.

5.6 Historical Balance Sheet

Statement of Financial Position	Reviewed as at 31-Dec-19 \$'000	Audited as at 30-Jun-19 \$'000	Audited as at 30-Jun-18 \$'000
CURRENT ASSETS			
Cash and cash equivalents	78,420	69,582	72,003
Trade and other receivables	2,478	1,998	2,030
Inventories	5,589	4,816	19,153
Derivative financial assets	-	25	-
Biological assets	37	80	12
TOTAL CURRENT ASSETS	86,524	76,501	93,198
NON-CURRENT ASSETS			
Property, plant and equipment	70,332	51,038	36,266
Exploration and evaluation expenditure	112,056	103,894	93,136
Financial assets at fair value through OCI	14,946	7,767	-
Derivative financial assets	247	678	-
Biological assets	268	402	526
Other financial assets	8,388	8,417	8,347
Investments	127	-	-
TOTAL NON-CURRENT ASSETS	206,364	172,196	138,275
TOTAL ASSETS	292,888	248,697	231,473
CURRENT LIABILITIES			
Trade and other payables	7,856	8,007	9,299
Income tax provision	-	-	6,929
Provisions	2,241	4,438	11,202
TOTAL CURRENT LIABILITIES	10,097	12,445	27,430
NON-CURRENT LIABILITIES			
Provisions	14,259	13,059	13,647
Deferred tax liabilities	12,550	9,317	-
Other	132	-	-
TOTAL NON-CURRENT LIABILITIES	26,941	22,376	13,647
TOTAL LIABILITIES	37,038	34,821	41,077
NET ASSETS	255,850	213,876	190,396
EQUITY			
Issued capital	254,371	220,111	220,160
Reserves	1,654	2,352	2,116
Accumulated losses	(175)	(8,587)	(31,880)
TOTAL EQUITY	255,850	213,876	190,396

Source: Half-year report of Alkane for the half year ended 31 December 2019 and Annual financial statements for the years ended 30 June 2019 and 2018.

Commentary on Historical Statements of Financial Position

- Cash and cash equivalents decreased by \$2.42 million from \$72.00 million at 30 June 2018 to \$69.58 million at 30 June 2019 primarily from the payments for Property, Plant and Equipment ('PP&E') of \$19.62 million and payments for exploration expenditure of \$11.58 million, which were enough to offset the net cash inflow from sales of \$36.57 million.
- Cash and cash equivalents increased by \$8.84 million from \$69.58 million at 30 June 2019 to \$78.42 million at 31 December 2019 primarily from the proceeds of the issue of shares of \$35.93 million. This was offset by payments for development of \$13.05 million, payments for financial assets at fair value of \$8.64 million and payments for PP&E of \$5.45 million during the period.
- The breakdown of inventory over the three periods is outlined below:

Inventories	31-Dec-19 \$'000	30-Jun-19 \$'000	30-Jun-18 \$'000
Ore stockpiles	564	704	11,229
Gold in circuit	2,718	834	1,184
Bullion on hand	11	1,539	5,333
Consumable stores	2,296	1,739	1,407
Total	5,589	4,816	19,153

Source: Half-year report of Alkane for the half year ended 31 December 2019 and Annual financial statements for the years ended 30 June 2019 and 2018.

The decrease in gold inventory from \$19.15 million at 30 June 2018 to \$4.82 million at 30 June 2019 is consistent with the slowdown in gold mining operations in FY19, whereby total gold poured decreased from 78,533 oz in FY18 to 48,969 oz in FY19.

- Biological assets of \$0.04 million (current) and \$0.27 million (non-current) at 31 December 2019 relates to livestock which were acquired by Toongi Pastoral as part of farming operations on surrounding land to the Dubbo Project mining lease.
- The breakdown of PP&E as at 31 December 2019 is outlined below:

Property, Plant and Equipment	Land and buildings \$'000	Plant and equipment \$'000	Capital WIP \$'000	Mine Properties \$'000	Total \$'000
Opening cost	40,379	80,448	3,728	174,479	299,034
Additions	-	-	7,741	13,929	21,670
Transfers between classes	518	4,052	(5,386)	816	-
Disposals	-	-	-	-	-
Accumulated depreciation	(12,674)	(73,322)	-	(162,000)	(247,996)
Depreciation charge	(62)	(1,337)	-	(977)	(2,376)
Closing value	28,161	9,841	6,083	26,247	70,332

Source: Half-year report of Alkane for the half year ended 31 December 2019 and Annual financial statements for the years ended 30 June 2019 and 2018.

- Exploration and evaluation expenditure of \$112.06 million at 31 December 2019 relates to costs and related overhead expenditure that have been capitalised on the basis that such costs are expected to be recouped through successful development or sale of the relevant mining interest.

For the half-year ended 31 December 2019, \$8.16 million of exploration expenditure had been capitalised.

- Non-current provisions of \$14.26 million at 31 December 2019 primarily relate to rehabilitation provisions of \$14.13 million.
- As at 31 December 2019, Alkane holds a contingent liability of \$8.20 million in the event that the Company's forward gold sales contracts are not settled by the physical delivery of gold.
- In addition, Alkane holds contingent liabilities estimated up to \$5.65 million for the potential acquisition of several parcels of land surrounding the Dubbo Project.
- Furthermore, Alkane holds a contingent liability of \$2.75 million in relation to an option agreement with landholders over a section of the Tomingley Corridor as part of potential project life extension for the Tomingley Gold Operations.

5.7 Historical Statement of Comprehensive Income

Statement of Comprehensive Income	Reviewed for the half-year ended 31-Dec-19 \$'000	Audited for the year ended 30-Jun-19 \$'000	Audited for the year ended 30-Jun-18 \$'000
Revenue	34,098	93,994	129,974
Cost of sales	(17,897)	(60,912)	(89,323)
Gross profit	16,201	33,082	40,651
Other net income	844	1,856	1,548
Expenses	-		
Corporate administration	(1,578)	(2,288)	(2,225)
Employee remuneration and benefits expense	(1,100)	(1,570)	(1,829)
Share based payments	(627)	(865)	(1,087)
Professional fees and consulting services	(1,031)	(1,633)	(1,467)
Restructuring provision	(103)	104	(496)
Exploration expenditure provided for or written off	-	(582)	(188)
Director's fees and salaries	(343)	(614)	(726)
Depreciation	(71)	(162)	(264)
Dubbo project expenses not capitalised	(295)	80	(945)
Non-core project expenses	-	(1,357)	(1,053)
Pastoral company operating expenses	(545)	-	-
Finance costs	(109)	(419)	(603)
Profit/(loss) from continuing operations before income tax	11,243	25,632	31,316
Income tax (expense)/benefit	(3,753)	(2,339)	(6,845)
Profit/(loss) from continuing operations after income tax	7,490	23,293	24,471

Statement of Comprehensive Income	Reviewed for the half-year ended 31-Dec-19 \$'000	Audited for the year ended 30-Jun-19 \$'000	Audited for the year ended 30-Jun-18 \$'000
Other comprehensive (loss)/income	(1,602)	(629)	-
Total comprehensive (loss)/profit for the year	5,888	22,664	24,471

Source: Half-year report of Alkane for the half year ended 31 December 2019 and Annual financial statements for the years ended 30 June 2019 and 2018.

Commentary on Historical Statements of Comprehensive Income

- The breakdown of revenue for the three periods is outlined below:

Revenue	31-Dec-19 \$'000	30-Jun-19 \$'000	30-Jun-18 \$'000
Gold sales	34,098	92,513	128,799
Interest income	-*	1,481	1,175
Total	34,098	93,994	129,974

*Interest income for the half year ended 31 December 2019 is classified in other net income.

Source: Half year report of Alkane for the period ended 31 December 2019 and Annual financial statements for the years ended 30 June 2019 and 2018.

The decrease in gold sales from \$128.80 million for the year ended 30 June 2018 to \$92.51 million for the year ended 30 June 2019 is consistent with the slowdown in gold mining operations in FY19, whereby total gold poured decreased from 78,533 oz in FY18 to 48,969 oz in FY19.

5.8 Capital Structure

The share structure of Alkane as at 11 May 2020 is outlined below:

	Number
Total ordinary shares on issue	580,033,307
Top 20 shareholders	250,884,009
Top 20 shareholders - % of shares on issue	43.25%

Source: Share registry as at 11 May 2020.

The range of shares held in Alkane as at 11 May 2020 is as follows:

Range of Shares Held	Number of Ordinary Shareholders	Number of Ordinary Shares	Percentage of Issued Shares (%)
1 - 1,000	1,122	599,480	0.10%
1,001 - 5,000	2,735	7,890,485	1.36%
5,001 - 10,000	1,517	11,691,907	2.02%
10,001 - 100,000	2,810	91,799,598	15.83%
100,001 - and over	549	468,051,837	80.69%
TOTAL	8,733	580,033,307	100.00%

Source: Share registry as at 11 May 2020.

The ordinary shares held by the most significant shareholders as at 11 May 2020 are detailed below:

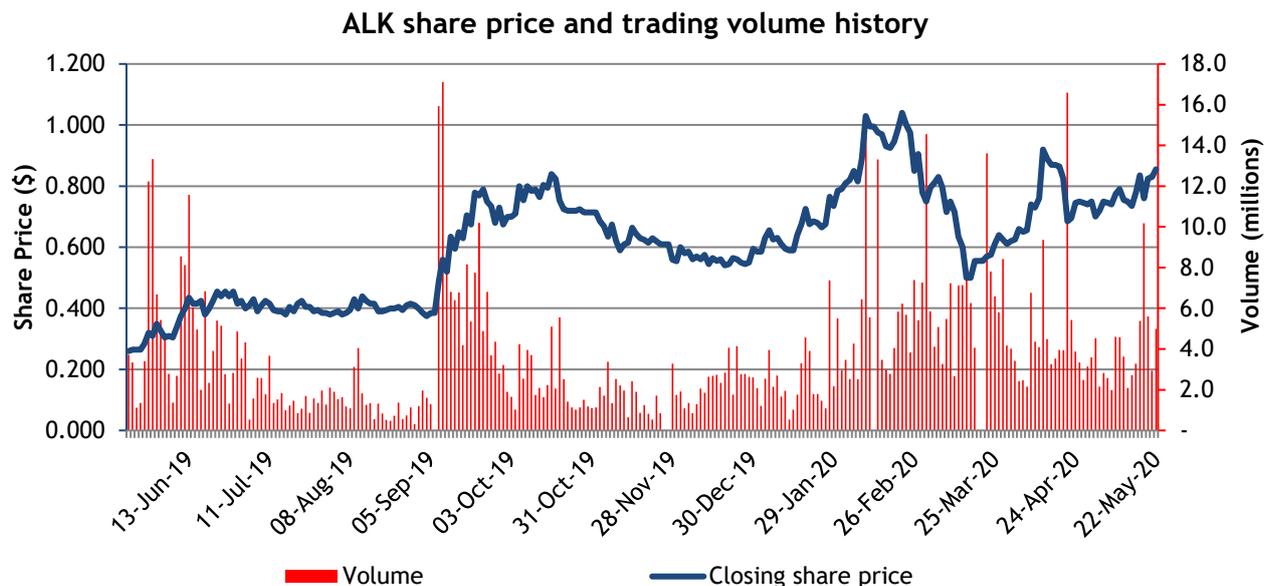
Name	Number of Ordinary Shares Held	Percentage of Issued Shares (%)
Mr. Ian Jeffrey Gandel	136,021,143	23.45%
Chapelgreen Pty Limited	25,900,000	4.47%
Dimensional Fund Advisors	12,338,349	2.13%
Credit Suisse Private Banking	9,280,954	1.60%
Subtotal	183,540,446	31.64%
Others	396,492,861	68.36%
Total ordinary shares on Issue	580,033,307	100.00%

Source: Share registry as at 11 May 2020.

5.9 Share price trading history and liquidity

We have analysed the trading history of the Company's shares over the 12 months to 22 May 2020 and have conducted an assessment on the liquidity of Alkane's shares.

The following chart provides a summary of the share price movement over the 12 months to 22 May 2020.



Source: Bloomberg and BDO analysis.

The daily price of Alkane's shares over the 12 months to 22 May 2020 has ranged from a low of \$0.260 on 22 May 2019 to a high of \$1.040 on 21 February 2020.

Alkane's share price held at generally consistent levels averaging at \$0.402 over July and August, until early September 2019, when the share price increased sharply, eventually peaking at \$0.789 on 24 September 2019. The sharp increase in the share price on 9 September 2019 coincided with the highest single day of trading when 17,108,764 shares were traded. Subsequently, the share price continued to

increase to reach \$0.839 on 17 October 2019, before gradually decreasing to an average of \$0.565 over December 2019.

In mid-January, Alkane's share price began to climb again, reaching an annual peak of \$1.030 on 10 February 2020, corresponding to a day of high trading volume of 14,453,612 shares traded. In line with the significant decline experienced by equity securities on the ASX from COVID-19, Alkane's share price dropped from the end of February through mid-March, reaching a low point of \$0.500 on 16 March 2020. The Company's share price has since recovered, reaching \$0.930 on 5 June 2020.

During the 12 months to 22 May 2020, a number of announcements were made to the market. The key announcements are set out in the table below:

Date	Announcement	Closing Share Price Following Announcement		Closing Share Price Three Days After Announcement	
		\$ (movement)		\$ (movement)	
19/05/2020	Boda Drilling Update, Project Summary and Proposed Program	0.760	▼ 9.0%	0.855	▲ 12.5%
11/05/2020	Approval Received for Underground Exploration Drive	0.790	▲ 1.9%	0.735	▼ 7.0%
29/04/2020	Quarterly Activities Report	0.740	▼ 0.7%	0.720	▼ 2.7%
22/04/2020	Further Extensive Porphyry Au-Cu Mineralisation at Boda	0.685	▼ 17.0%	0.750	▲ 9.5%
20/04/2020	Initial San Antonio Inferred Resource	0.865	▼ 0.6%	0.695	▼ 19.7%
09/04/2020	Roswell and San Antonio Resource Definition Drilling Update	0.760	▲ 4.1%	0.870	▲ 14.5%
23/03/2020	Significant High Grade Au-Cu Mineralisation at Boda	0.570	▲ 2.7%	0.640	▲ 12.3%
19/03/2020	Trading Halt	0.555	▶ 0.0%	0.575	▲ 3.6%
09/03/2020	Roswell and San Antonio Resource Definition Drilling Update	0.715	▼ 10.1%	0.635	▼ 11.2%
05/03/2020	EFA Confirms Interest in Dubbo Project Financing	0.830	▲ 2.5%	0.750	▼ 9.6%
26/02/2020	Appendix 4D and Interim Financial Report	0.850	▼ 12.8%	0.750	▼ 11.8%
13/02/2020	Significant Porphyry Au-Cu Mineralisation Width increase	0.975	▼ 2.0%	0.925	▼ 5.1%
11/02/2020	Trading Halt	0.995	▼ 3.4%	0.970	▼ 2.5%
30/01/2020	Quarterly Activities Report	0.785	▲ 6.8%	0.820	▲ 4.5%
28/01/2020	Initial Roswell Inferred Resource	0.765	▲ 13.3%	0.790	▲ 3.3%
17/01/2020	Resource Definition Drilling Update	0.725	▲ 7.4%	0.680	▼ 6.2%
23/12/2019	Completion of Capital Raising and Shortfall Notification	0.550	▼ 1.8%	0.595	▲ 8.2%
10/12/2019	Extension to Closing Date of Non-Renounceable Issue	0.575	▲ 2.7%	0.555	▼ 3.5%
05/12/2019	Roswell and San Antonio Resource Definition Drilling Update	0.560	▼ 4.3%	0.575	▲ 2.7%
28/11/2019	Offer Booklet for non renounceable Rights Issue	0.559	▼ 8.2%	0.580	▲ 3.7%
28/11/2019	Launches Non-Renounceable Issue	0.559	▼ 8.2%	0.580	▲ 3.7%
26/11/2019	Trading Halt	0.609	▶ 0.0%	0.554	▼ 9.0%
14/11/2019	Further core drilling initiated at Boda Porphyry Prospect	0.664	▲ 8.1%	0.624	▼ 6.0%

Date	Announcement	Closing Share Price Following Announcement		Closing Share Price Three Days After Announcement	
		\$ (movement)		\$ (movement)	
06/11/2019	Roswell and San Antonio Resource Definition Drilling Update	0.634	▼ 5.2%	0.589	▼ 7.1%
21/10/2019	Quarterly Activities Report	0.754	▼ 8.5%	0.719	▼ 4.6%
21/10/2019	Quarterly Cashflow Report	0.754	▼ 8.5%	0.719	▼ 4.6%
23/09/2019	Resource and Reserve Statements FY19	0.769	▼ 1.3%	0.734	▼ 4.5%
23/09/2019	Roswell and San Antonio Resource Definition Drilling Update	0.769	▼ 1.3%	0.734	▼ 4.5%
09/09/2019	Discovers Significant Porphyry Au Cu Mineralisation at Boda	0.490	▲ 27.3%	0.634	▲ 29.6%
05/09/2019	Trading Halt	0.385	▲ 2.7%	0.559	▲ 45.4%
02/09/2019	Full Year Statutory Accounts	0.400	▼ 2.4%	0.385	▼ 3.8%
12/08/2019	GMD: Offer Document Non-Renounceable Rights Issue	0.400	▼ 7.0%	0.415	▲ 3.8%
12/08/2019	Roswell and San Antonio Resource Definition Drilling Update	0.400	▼ 7.0%	0.415	▲ 3.8%
02/08/2019	Strategic Investment in Genesis Minerals	0.385	▲ 1.3%	0.385	► 0.0%
02/08/2019	GMD: Strategic Investment in Genesis	0.385	▲ 1.3%	0.385	► 0.0%
31/07/2019	Quarterly Cashflow Report	0.385	► 0.0%	0.390	▲ 1.3%
29/07/2019	Gold Mineralisation Drilling at Peak Hill	0.395	▲ 1.3%	0.380	▼ 3.8%
11/07/2019	Quarterly Activities Report	0.415	▼ 2.4%	0.390	▼ 6.0%
09/07/2019	Significant Exploration Target Defined At Tomingley	0.410	▲ 5.1%	0.395	▼ 3.7%
12/06/2019	Further Significant Gold Intercepts In TGO Gold Corridor	0.400	▲ 6.7%	0.415	▲ 3.8%
11/06/2019	Response to ASX Aware Query	0.375	▲ 10.3%	0.415	▲ 10.7%
06/06/2019	Investment in Clean Metal Processing Technology	0.305	▼ 1.6%	0.400	▲ 31.1%
05/06/2019	Tomingley Gold Production Update and Revised FY 19 Guidance	0.310	▲ 1.6%	0.375	▲ 21.0%
05/06/2019	Tomingley Gold Production Update and Revised FY 19 Guidance	0.310	▲ 1.6%	0.375	▲ 21.0%

Source: Bloomberg, BDO analysis

On 5 June 2019, the Company released its Tomingley Gold Production Update and Revised FY 2019 Guidance to the market, which noted that gold production for FY19 was expected to be 48,000 to 49,000 ounces which is above the upper range of the previous guidance range. On the date of the announcement, the Alkane share price increased by 1.6% to close at \$0.310, before increasing a further 21.0%, over the subsequent three-day period to close at \$0.375.

On 6 June 2019, Alkane announced that through its wholly owned subsidiary, ASM had executed a binding agreement with ZTC to fund the final stage research and feasibility in relation to a clean metal process to convert metal oxide (including key Dubbo Project metals) to metals of high marketable purity. The agreement resulted in a new Korean-domiciled company established with ZTC and ASM as shareholders. On the date of the announcement, the Alkane share price decreased by 1.6% to close at \$0.305, before increasing 31.1%, over the subsequent three-day period to close at \$0.400.

On 11 June 2019, Alkane responded to an ASX Aware Query in reference to the delay of information being released to the ASX concerning a binding agreement between a wholly owned subsidiary of Alkane and ZTC. On the date of the announcement, the Alkane share price increased by 10.3% to close at \$0.375, before increasing a further 10.7%, over the subsequent three-day period to close at \$0.415.

On 9 September 2019, Alkane announced the discovery of gold-copper mineralisation at the Boda and Kaiser Prospects. On the date of the announcement, the Alkane share price increased by 27.3% to close at \$0.490, before increasing a further 29.6%, over the subsequent three-day period to close at \$0.634.

On 21 October 2019, Alkane released its Quarterly Cashflow Report and Quarterly Activities Report, outlining that total gold production was above forecast at 7,497 ounces and that guidance for FY20 had increased from 30,000 to 35,000 ounces of gold. On the date of the announcement, the share price decreased by 8.5% to close at \$0.754, before further decreasing by 4.6% over the subsequent three-day trading period to close at \$0.719.

On 14 November 2019, Alkane announced that a follow up drilling program of initially five core holes was scheduled to commence to test the substantial Boda porphyry gold-copper mineralisation. On the date of the announcement, the Alkane share price increased by 8.1% to close at \$0.664, before decreasing by 6.0%, over the subsequent three-day period to close at \$0.624.

On 28 January 2020, Alkane announced that the ongoing 60,000-metre resource definition drilling program on the Roswell and San Antonio prospects has demonstrated an Inferred Mineral Resource of 7.02 million tonnes grading 1.97g/t gold at the Roswell Deposit. On the date of the announcement, the Alkane share price increased by 13.3% to close at \$0.765, before increasing a further 3.3%, over the subsequent three-day period to close at \$0.790.

On 26 February 2020, Alkane released the Company's Appendix 4D and Interim Financial Report outlining a 35% decrease in revenue and 39% decrease in net profit for the period attributable to members. On the date of the announcement, the Alkane share price decreased by 12.8% to close at \$0.850, before decreasing a further 11.8%, over the subsequent three-day period to close at \$0.750.

On 9 March 2020, Alkane announced that the first phase of the Roswell and San Antonio resource definition drilling program to advance inferred resources to indicated/measured resource status was nearing completion. On the date of the announcement, the Alkane share price decreased by 10.1% to close at \$0.715, before decreasing a further 11.2%, over the subsequent three-day period to close at \$0.635.

On 23 March 2020, the Company announced high-grade gold-copper mineralisation results of drill holes KSDD006 and KSDD007 intersected at Boda. On the date of the announcement, the share price increased 2.7% to close at \$0.570, before increasing by a further 12.3% to close at \$0.640 over the subsequent three-day trading period.

On 9 April 2020, the Company released a Roswell and San Antonio prospects resource definition drilling update, detailing the completion of the first phase of the drilling program and the continuation of the second phase of drilling. On the date of the announcement, the share price increased by 4.1% to close at \$0.760, before increasing by a further 14.5% to close at \$0.870 over the subsequent three-day trading period.

On 20 April 2020, the Company announced the initial inferred resource estimate of 453,000 oz of gold at the San Antonio prospect, bringing the total resource estimate for the Tomingley Gold operations and exploration tenements in excess of one million ounces of contained gold. On the date of the

announcement, the share price decreased by 0.6% to close at \$0.865, before decreasing by a further 19.7% to close at \$0.695 over the subsequent three-day trading period.

On 22 April 2020, Alkane announced assay results for diamond core drill hole KSDD008 at Boda, which confirmed further extensive porphyry gold-copper mineralisation. On the date of the announcement, the share price decreased by 17.0% to close at \$0.685, before increasing by 9.5% to close at \$0.750 over the subsequent three-day trading period.

On 29 April 2020, the Company released its Quarterly Activities Report for the March 2020 quarter, which highlighted among other things, a steady state underground stoped ore production of 5,723 ounces of gold at the Tomingley Project in the quarter ended 31 March 2020, and the results of the inferred resource estimate at the San Antonio prospect. On the date of the announcement, the share price decreased by 0.7% to close at \$0.740, before decreasing by a further 2.7% to close at \$0.720 over the subsequent three-day trading period.

On 11 May 2020, the Company announced it had received approval from the NSW Government Resources Regulator to develop an exploration drive from the Wyoming Ore deposits, to the Roswell and San Antonio deposits. On the date of the announcement, the share price increased by 1.9% to close at \$0.790, before declining by 7.0% to close at \$0.735 over the subsequent three-day trading period.

On 19 May 2020, Alkane announced the initial modelling of drilling completed at Boda and the assay results for diamond core drill hole KSDD009. The Company also announced that a major RC and diamond core drilling program was planned to commence early in the third quarter of 2020 at Boda. On the date of the announcement, the share price decreased by 9.0% to close at \$0.760, before increasing by 12.5% to close at \$0.855 over the subsequent three-day trading period.

An analysis of the volume of trading in Alkane's shares for the 12 months to 22 May 2020 is set out below:

Trading days	Share price low	Share price high	Cumulative volume traded	As a % of Issued capital
1 Day	\$0.810	\$0.885	4,994,649	0.86%
10 Days	\$0.730	\$0.885	45,362,406	7.82%
30 Days	\$0.675	\$0.935	135,058,628	23.28%
60 Days	\$0.460	\$0.935	300,102,653	51.74%
90 Days	\$0.460	\$1.160	432,468,958	74.56%
180 Days	\$0.385	\$1.160	701,584,511	120.96%
1 Year	\$0.255	\$1.160	915,486,152	157.83%

Source: Bloomberg and BDO analysis

We consider the following characteristics to be representative of a liquid and active market:

- regular trading in a company's securities;
- approximately 1% of a company's securities are traded on a weekly basis;
- the spread of a company's shares must not be so great that a single minority trade can significantly affect the market capitalisation of a company; and
- there are no significant but unexplained movements in share price.

Based on the characteristics above, we consider that Alkane's shares on the ASX exhibit a high level of liquidity given that 157.83% of the Company's current issued capital had been traded in the historical 12-

month period. In addition, we observed the percentage of the Company's securities traded on a weekly basis to be considerably higher than the benchmark of 1%.

6. Economic analysis

In the following section, we set out an analysis of the current economic context and outlook in Australia including the COVID-19 outbreak and consider the implications for Alkane and the mining industry. We note that the situation continues to evolve.

The Australian economy and COVID-19 outbreak

The Australian economy grew at 2% over 2019. The Reserve Bank of Australia ('RBA') had been predicting Gross Domestic Product ('GDP') growth of around 2.75% over 2020 and around 3% by the end of 2021, based on low interest rates, lower exchange rates, a rise in mining investment, high levels of spending on infrastructure and an expected recovery in residential construction. However, as a result of the COVID-19 outbreak and the Australian bushfires, this momentum has been significantly disrupted.

COVID-19 is currently having a significant impact on the Australian economy and financial system, along with creating considerable volatility in financial markets. Equity prices have experienced large declines, and the yield on government bonds has fallen to historic lows.

The federal government announced a \$17.6 billion stimulus package on 12 March 2020 to provide short-term support to the economy. On 19 March 2020, the RBA announced it would implement a number of measures including:

- Lowering the cash rate by a further 25 basis points to 0.25%, along with a commitment to maintain it at this level until progress is made towards full employment and it is confident that mid-term inflation will fall within the 2% to 3% target band;
- A target for the yield on 3-year Australian Government bonds of approximately 0.25%, which will be achieved through the purchases of Government bonds in the secondary market;
- A term funding facility for the banking system, with particular support for credit to small and medium-sized businesses, and a complementary program of support for the non-bank financial sector; and
- Exchange settlement balances at the RBA will be remunerated at 10 basis points, rather than zero, which will mitigate the cost to the banking system associated with the large increase in banks' settlement balances at the RBA as a result of the policy actions.

Following the announcements, the RBA has reached its target yield on 3-year Government bonds, and the functioning of the Government bond market has improved. Since the target was introduced, the RBA has purchased around \$36 billion worth of Government bonds in the secondary market. The RBA will continue to monitor the Government bond market and make further purchases should it be necessary to achieve the 0.25% target.

According to the May 2020 Monetary Policy Statement released by the RBA, the appetite for gold has been strong over the past year, outperforming bulk commodities, rural commodities, base metals and Brent crude oil with an increase in prices of 33.0% over the past year and 9.0% since the previous statement in February 2020. This has been driven by the many investors who flocked to gold as a safe haven asset amidst the current uncertain economic environment.

Once COVID-19 is contained, the RBA expects the Australian economy to recover and return to an improving trend, with output growth of 6% expected for 2021. In the interim, the RBA is focusing on reducing economic and financial disruptions and supporting jobs, incomes and businesses.

Source: www.rba.gov.au Statement of Monetary Policy May 2020, www.rba.gov.au Statement by Glenn Stevens, Governor: Monetary Policy Decision 5 May 2020, www.rba.gov.au Statement by Philip Lowe, Governor: Monetary Policy Decision 19 March 2020, Statement by Philip Lowe, Governor: Monetary Policy Decision 3 March 2020, and Statement on Monetary Policy February 2020.

7. Industry analysis

Following the Demerger, Alkane will operate in the gold mining industry, while ASM will operate in the critical materials sector. Therefore, we have set out an analysis of and commentary on the key trends for the two industries in the following paragraphs.

7.1 Gold

Gold is a soft malleable metal which is highly desirable due to its rarity, permanence, and unique mineral properties. Gold has been used in jewellery and as a form of currency for thousands of years, however in more recent history there has been increasing demand for its use in the manufacture of electronics, dentistry, medicine and aerospace technology.

In addition to its practical applications, gold also serves as an international store of monetary value. Gold is widely regarded as a monetary asset as it is considered less volatile than world currencies and therefore provides a safe haven investment during periods of economic uncertainty.

Once mined, gold continues to exist indefinitely and is often melted down and recycled to produce alternative or replacement products. Consequently, demand for gold is supported by both gold ore mining and gold recycling. A summary of the recent historical supply of gold is provided in the table below:

Historically, the price of gold is negatively correlated to the prices of other asset classes during times of uncertainty and financial crises. Due to the recent coronavirus outbreak sparking uncertainty, the price of gold has rallied as investors demand the high liquidity that gold provides. This increase in the price of gold will positively impact Alkane if this uncertainty prevails.

The World Gold Council expects that the interplay between financial uncertainty, lower interest rates, weakening in global economic growth and gold price volatility will drive gold demand in 2020.

Gold supply (tonnes)	2012	2013	2014	2015	2016	2017	2018	2019
Mine production	2,930	3,112	3,204	3,291	3,399	3,447	3,509	3,464
Net producer hedging	(45)	(28)	105	13	38	(26)	(13)	8
Recycled gold	1,671	1,248	1,188	1,121	1,282	1,156	1,176	1,304
Total supply	4,556	4,332	4,497	4,425	4,719	4,577	4,672	4,776

Source: World Gold Council Quarter 4 2019 Statistics, 30 January 2020.

The gold ore mining industry has performed steadily in recent years, with growth driven by price increases and slow economic growth. However, gold mine production was 1.3% lower than in 2018, the first annual decline in production since 2008. This decline can be mainly attributed to China's fall in mine output by 6% due to strict environmental restrictions that have come into force in recent years.

Key external drivers

Global gold prices have a significant impact on the revenue generated by industry operators. When gold prices are low, gold miners are less likely to commit to projects with lower gold grades and higher production costs. Ultimately, a decline in gold prices reduces the viability of new and existing projects, which hinders industry growth.

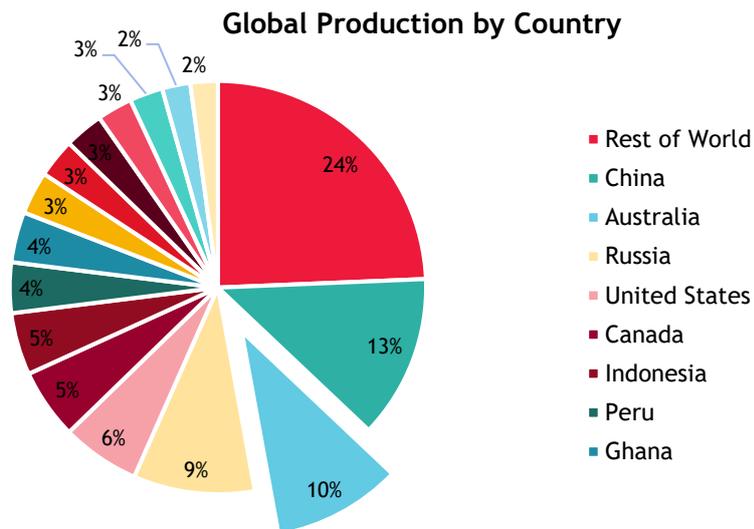
The global gold price is denominated in US dollars and therefore, the exchange rate directly affects the returns received by local industry operators. A weaker Australian Dollar benefits the domestic industry by reducing prices in export markets and pushing up domestic prices, likely resulting in higher volumes.

Global demand for gold is also inversely related to global economic performance. As gold is regarded as a store of value and is particularly sought after during periods of economic uncertainty, demand follows a counter cyclical pattern. Strong global GDP growth can therefore have a negative impact on gold demand and the industry. The recent rally in gold prices is partly a reflection of the high level economic uncertainty stemming primarily from the COVID-19 outbreak and other geopolitical events.

Gold ore mining trends

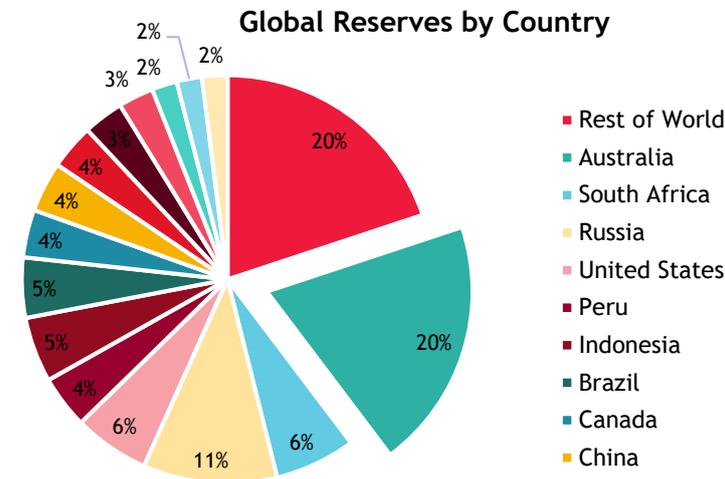
Gold ore mining is a capital intensive and high cost process, which is becoming increasingly difficult and more expensive as the quality of ore reserves diminishes. The industry also incurs many indirect costs related to exploration, royalties, overheads, marketing and native title law. Typically, many of these costs are fixed in the short term as a result of industry operators' inability to significantly alter cost structures once a mine commences production.

Until the late 1980s, South Africa produced approximately half of the total gold ore mined globally. More recently however, the industry has diversified geographically and China and Australia now dominate global gold production. According to the United States Geological Survey, total estimated global gold ore mined for 2019 was approximately 3,287 metric tonnes. The chart below illustrates the estimated global gold production by country for 2019.



Source: 2020 United States Geological Survey and BDO analysis.

Despite China leading global gold production in 2019, Australia, South Africa and Russia hold the largest known gold reserves globally. As depicted below, the United States Geological Survey estimates that collectively these three countries account for approximately 37% of global gold reserves.



Source: 2020 United States Geological Survey and BDO analysis.

According to the 2020 United States Geological Survey, Australia’s gold reserves amount to 10,000 tonnes, representing 20% of global reserves and the largest percentage held by any one country. IBIS World estimates domestic industry revenue to grow by an annualised 0.8% over the five year period through to 2022-23, reaching approximately \$18.8 billion. However, rising production costs due to lower ore quality and higher transportation costs are anticipated to reduce industry profitability over the period.

Gold prices

The price of gold peaked at US\$1,900 on 5 September 2011, due largely to the debt market crisis in Europe and the Standard and Poor’s downgrade of the US credit rating. Global stock markets subsequently went into turmoil, which saw investors opt for the stability offered by gold.

The price of gold fluctuated around US\$1,700 during 2012 before entering a steep decline in 2013. The downturn represented the beginning of a correction in the price of gold, which had almost tripled in the two-year period prior to the European crisis in 2011. Improved market sentiment and increased risk appetite from investors saw gold prices continue to decline throughout 2014 and 2015 to US\$1,051 in December 2015.

During 2016, gold prices strengthened, likely as a result of heightened uncertainty surrounding the US Presidential election and the United Kingdom’s exit from the European Union. The price of gold reached US\$1,363 in late 2016 before stabilising around US\$1,200 to US\$1,300 throughout 2017.

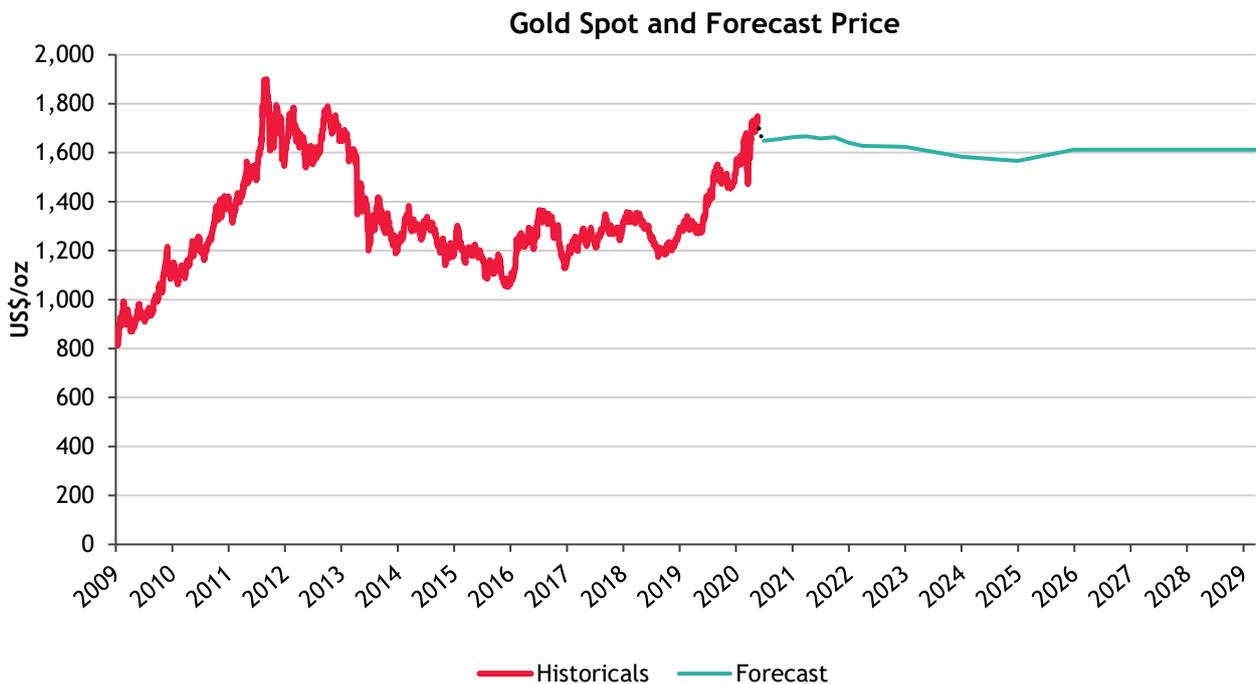
The gold price fluctuated throughout 2018. In January 2018, the gold price strengthened, rising to approximately US\$1,360, spurred on by a weak US dollar. From April 2018 through to August 2018, the price of gold trended downwards. Prices remained flat through August and September of 2018, before increasing in October and November of 2018.

The price of gold reached US\$1,341 in February 2019, before declining to US\$1,270 in May 2019. On 25 June 2019, the US dollar gold price reached a 17-month high of US\$1,423. The rise in the US dollar gold price, coupled with a weak Australia dollar, saw the Australian dollar spot price of gold reach an all-time high of \$2,046 per oz. In August 2019, the gold price rallied past US\$1,500 reaching six year highs. Demand for gold was primarily driven by investors looking to avoid US-China trade war uncertainties, while civil unrest in Hong Kong further spurred investors to abandon riskier asset classes for safe haven assets. The gold price continued to remain around US\$1,500 throughout October 2019, although it dipped slightly to US\$1,465 in mid-November 2019.

Gold prices have increased in further in the first quarter of 2020 in reaction to the uncertainty created by the global spread of COVID-19, as investors move to safe haven assets. Global investors are expected to continue to favour gold as a safe haven asset throughout 2020, as higher levels of global risk and uncertainty persist. Additionally, political instability in various regions and the potential for higher inflation levels will encourage investors to demand gold.

According to Consensus Economics forecasts, the price of gold will continue to remain at its current high levels with the uncertainty created by the spread of COVID-19 sustaining demand for gold.

The gold spot price since 2009 and forecast prices through to 2029 are depicted in the graph below.



Source: Bloomberg, Consensus Economics and BDO Analysis.

7.2 Critical Materials

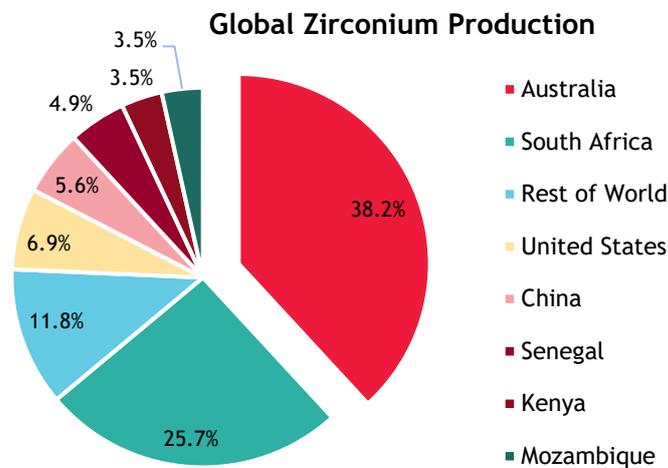
Zirconium

Zirconium is a soft silvery-white metal primary produced from the mineral zircon. Zirconium is used for cladding nuclear reactor fuels, whilst zirconium compounds are used in a variety of high temperature applications such as moulds for molten metals. The Dubbo project is a large in-ground resource of

zirconium and will produce a mix of ‘base’ and ‘premium’ zirconium products, including zirconium oxychloride, zirconium basic carbonate and zirconium oxide at a range of purities.

The Asia-Pacific region dominated the global market share in 2019 with majority of demand coming from China. The global zirconium market is highly consolidated with the top five companies accounting for around 70% of the global production capacity as at 2017. Currently, Iluka Resource Limited, an ASX-listed entity with operations within Australia leads the zirconium market with a share of over 25% of the total production capacity.

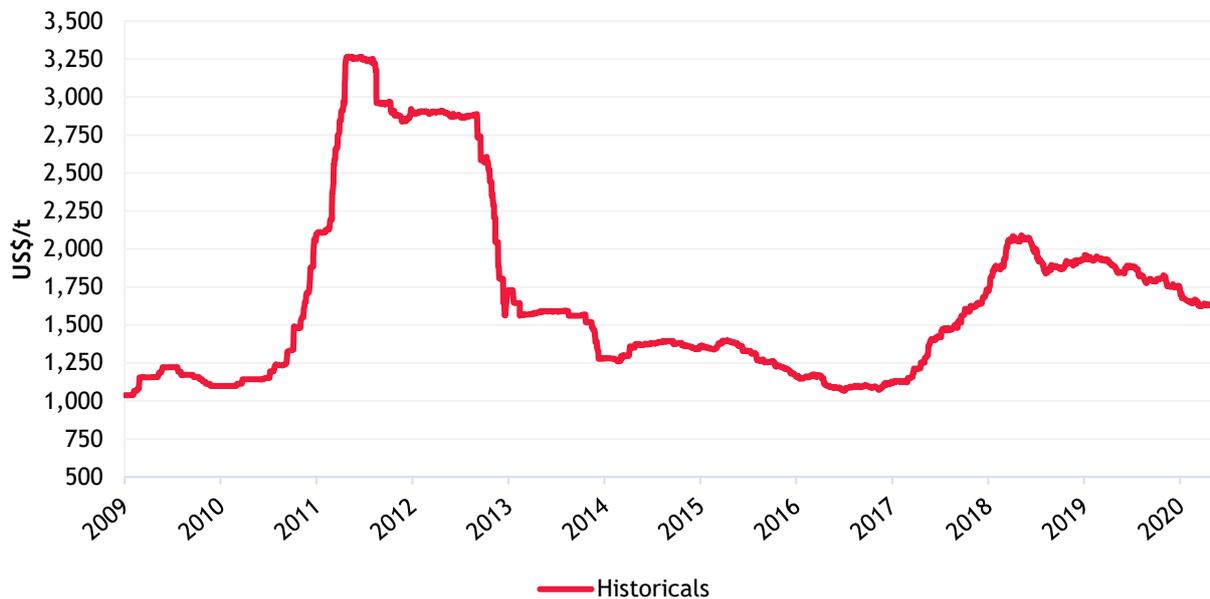
As depicted below, Australia is currently the largest producer of zirconium in the world, providing opportunities for ASM to capitalise on Australia’s rich zirconium supply. Furthermore, Australia is also home to the most zirconium reserves in the world, containing 67% of the world’s reserves.



Source: 2020 United States Geological Survey and BDO analysis

Market prices for zirconium products remained relatively stable in the 2019 financial year after rapid rises in the previous year driven primarily by supply disruptions from China. The chart below outlines the movements in the spot price of zircon, the primary material for zirconium products from January 2009 to May 2020.

China Zircon Sand Australian Zr(Hf)O₂ 66% in ports (US\$/t)



Source: Bloomberg.

Zirconium has an optimistic price forecast driven by growth in foundries and refractories and the growth of nuclear power stations in Asia-Pacific. An oversupply in the zirconium market has caused the price to marginally decrease over Q1 2020 and Q2 2020. However, it is anticipated zirconium prices will recover over the next financial year due to reduced production from major mines. The entire Zirconium and Hafnium market was valued approximately US\$700 million and is forecasted to reach approximately US\$900 million by 2026.

The 2019 World Energy Outlook report sees installed nuclear capacity growth of over 15% from 2018 to 2040. Currently there are a total of 450 nuclear power reactors operating in over 30 countries. However, nuclear power capacity worldwide is increasing steadily, with approximately 50 nuclear power reactors under construction. This scenario would potentially result in an increase in demand and therefore the price of zirconium, which is necessary in the construction of nuclear reactors.

Source: Australian Critical Minerals Prospectus 2019 by *Australian Trade and Investment Commission*, Alkane Resources Annual Report 2019, World Energy Outlook Report 2019, Thomson Reuters.

Niobium

Niobium was first discovered in 1801 and is a grey, soft, ductile, transitional metal largely found in pyrochlore however can also be found with tantalum in columbite ore. The global steel industry is the main driver for niobium consumption, where 90% of all niobium is used as ferro-niobium for high strength alloy steels for the construction and automotive sectors. Niobium can increase the mechanical strength, corrosive resistance and high temperature strength of steel. It is for this reason that niobium steels are often used in cars, pipelines, buildings and bridges.

The current niobium market is dominated by Brazil, in particular Metalurgia Companhia Brasileira de Metalurgia e Mineração ('CBMM'), which currently produces 92% of the world's niobium. The two smaller players, Anglo American PLC ('Anglo American') and Magris Resources Inc ('Magris'), produce

approximately 3% each. CBMM and Anglo American both have operations in Brazil, while Magris operates in Canada.

Over the medium to long-term, US President Donald Trump’s US\$1.0 trillion infrastructure plan to boost the American economy may bode well for mineral producers as demand for minerals such as arsenic, natural graphite, manganese, niobium and tantalum may increase as part of the plan.

According to the USGS, estimated global reserves and resources of niobium are sufficient enough to meet global demand for the foreseeable future. However, possible disruptions such as war, civil unrest, political changes, natural disasters, environmental issues and market manipulation may potentially generate supply problems for the metal. This is particularly a risk for Brazil, which is the world’s largest producer of niobium. Following the demerger, ASM will be the only Australian producer of ferro-niobium via a joint-venture with Treibacher AG.

Hafnium

Hafnium is a shiny, silvery, corrosion resistant metal which is primarily used in the control rods of nuclear reactors, in vacuum tubes and has been used as an alloying agent with iron, titanium, niobium and other metals. Hafnium oxide, a compound of hafnium, is used as an electrical insulator in microchips.

Currently, the United States of America and France are the major hafnium producing countries with a combined share of more than 85% of the global production. This can be explained by the increasing demand from applications such as aerospace and submarines as global security threats have intensified. Hafnium is essential for aerospace applications, such as space rocket engines and heat-resistant hafnium-niobium alloys.

Following strong growth in the global commercial aerospace industry during 2018, the industry has since declined due to production issues in particular aircraft models. However, the industry is expected to recover moving forward as long-term demand for commercial aerospace vehicles remains optimistic with approximately 40,000 vehicles to be produced over the next 20 years.

Rare Earth Elements

Rare earth elements (‘REE’) is segmented by 15 lanthanides plus scandium and yttrium that have similar chemical properties to the lanthanides. The REE are conventionally divided into “Light” REE (‘LREE’) and “Heavy” REE (‘HREE’). REE are more abundant in the Earth’s crust than gold, silver or platinum metals. However, because of their geochemical properties, REE are typically dispersed and not often found in concentrated and economically viable quantities. Due to the very similar chemical characteristics of REE, the preparation of pure oxide or metal products of the individual REE from rare earth mineral concentrate is complex and expensive.

The table below depicts each REE, their atomic number, symbol and their main usages in the market:

A/N	Symbol	Name	Type of REE	Selected Usages
57	La	Lanthanum	LREE	High refractive index glass, flint, hydrogen storage, battery-electrodes, camera lenses, fluid catalytic cracking catalyst for oil refineries
58	Ce	Cerium	LREE	Chemical oxidizing agent, polishing powder, yellow colours in glass and ceramics, catalyst for self-cleaning ovens, fluid catalytic cracking catalyst for oil refineries

A/N	Symbol	Name	Type of REE	Selected Usages
59	Pr	Praseodymium	LREE	Rare-earth magnets, lasers, core material for carbon arc lighting, colorant in glasses and enamels, additive in Didymium glass used in welding goggles, ferrocerium fire steel (flint) products
60	Nd	Neodymium	LREE	Rare-earth magnets, lasers, violet colours in glass and ceramics, ceramic capacitors
61	Pm	Promethium	LREE	Nuclear batteries
62	Sm	Samarium	LREE	Rare-earth magnets, lasers, neutron capture, masers
63	Eu	Europium	HREE	Red and blue phosphors, lasers, mercury-vapour lamps
64	Gd	Gadolinium	HREE	Rare-earth magnets, high refractive index glass or garnets, lasers, x-ray tubes, computer memories, neutron capture
65	Tb	Terbium	HREE	Green phosphors, lasers, fluorescent lamps
66	Dy	Dysprosium	HREE	Rare-earth magnets, lasers
67	Ho	Holmium	HREE	Lasers
68	Er	Erbium	HREE	Lasers, vanadium steel
69	Tm	Thulium	HREE	Portable X-ray machines
70	Yb	Ytterbium	HREE	Infrared lasers, chemical reducing agent
71	Lu	Lutetium	HREE	PET Scan detectors, high refractive index glass
21	Sc	Scandium	HREE	Light Aluminium-scandium alloy for aerospace components, additive in Mercury-vapour lamps
39	Y	Yttrium	HREE	Yttrium-aluminium garnet (YAG) laser, YBCO high-temperature superconductors, yttrium iron garnet (YIG) microwave filters

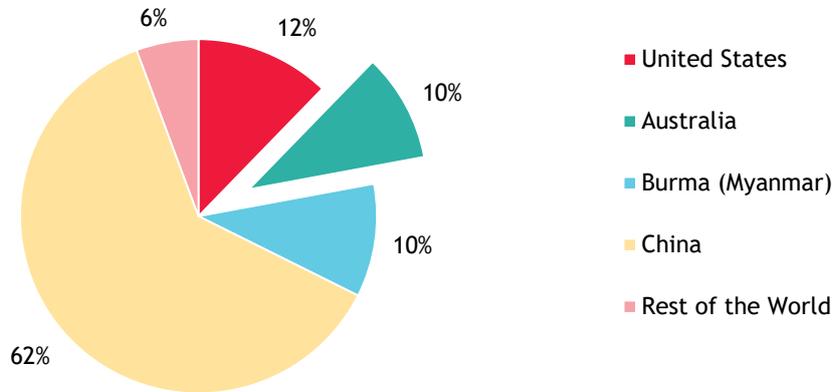
REE demand is growing rapidly due to the adoption of environmentally-friendly energy technologies; in particular wind energy generation and low-emission “hybrid” motor vehicles. Further, REE is a vital mineral necessary for the production of various high technology products and defence equipment.

The prices for REE are not fixed by central trading exchanges but are fixed on a trade-by-trade basis. The price of individual rare earths varies widely. Therefore, REE deposits are compared on the basis of its relative concentrations of individual REE in the ore.

The Asia-Pacific region dominated the global production of REE in 2019, as production has significantly declined over the past few decades in countries outside of this region. China is the world’s largest automotive producer and is focussed on increasing the production and sale of electric vehicles across the country. China is the world’s leading REE producer, with an estimated 132,000 tonnes of REE mined throughout 2019 equating to approximately 62% of the world REE production.

The graph below exhibits estimated production output for 2019:

REE Production by Country 2019



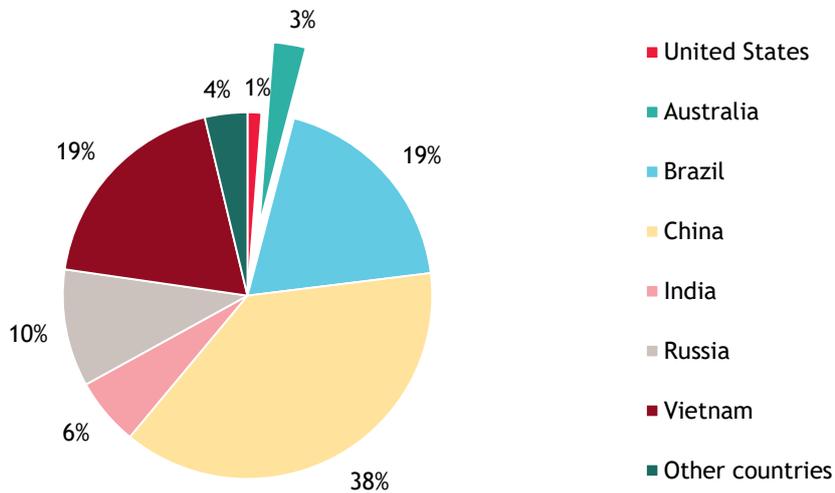
Source: 2020 United States Geological Survey and BDO analysis.

Australia is the third largest REE producer in the world, with an estimated 21,000 tonnes of REE mined throughout 2019.

REE Reserves

At the end of 2019, China and Brazil were collectively estimated to account for 57% of the global REE reserves. A figure illustrating an estimated country breakdown of reserves is shown below:

REE Reserves by Country 2019



Source: 2020 United States Geological Survey and BDO analysis.

8. Do the advantages of the Demerger outweigh the disadvantages?

8.1 Independence of assets

Based on the analysis of the Company's current operations under its gold and critical materials divisions, we consider that the assets under each division are independent of each other. Our reasons for this conclusion are as follows:

- The commodities that are currently produced or are expected to be produced under each division are distinct from each other, with different economic drivers influencing demand and supply;
- The resources and reserves of the assets under each division have not been determined on the assumption that all assets will be developed together;
- Plans for development of the projects are not dependant on each other and do not assume any shared infrastructure or technologies; and
- The projects are in different stages, whereby the Dubbo Project is a construction-ready project pending financing, while the Tomingley Project is at the stage of developing its underground mining operations as well as continuing its drilling programmes in prospective tenement areas to increase its gold resource for its 1 Mtpa processing facility.

Furthermore, nothing has come to our attention to suggest that there will be significant synergies in developing the projects together. Therefore, if the Demerger were to be successful, we consider that the underlying value of the assets to be held by Alkane and ASM will remain unchanged, and hence there will be no material change in the value to Shareholders.

Consequently, in order to determine whether the Demerger is in the best interests of Shareholders, we have considered the advantages, disadvantages and other factors that are likely to impact Shareholders.

8.2 Advantages of the Demerger

We have considered the following advantages when assessing the Demerger.

8.2.1. Shareholder flexibility

On the implementation of the Demerger, Shareholders will have the same proportionate shareholding in ASM that they currently hold in Alkane, with the in-specie distribution to be completed on a pro-rata basis based on one ASM share for every five Alkane shares held.

Following this, Shareholders will have the flexibility to choose whether they continue to keep their exposure to the gold assets held in Alkane and the critical materials assets held in ASM, providing Shareholders with the flexibility to structure their portfolios as they see fit.

8.2.2. Focused leadership and management

For the last 15 years, the management of Alkane have been managing both gold operations and critical materials operations concurrently. As a result, the time and attention of the Directors and senior management have been divided between both business units, potentially limiting the rate at which the Tomingley Project and the Dubbo Project progress.

As part of the Demerger, Alkane and ASM will have two separate boards with different managing directors (see Section 4 of our Report for board changes). Nicholas Earner will remain the managing director of

Alkane, with his focus solely on Alkane’s gold operations following the Demerger, while David Woodall will be the managing director of the new listed entity, ASM, following the Demerger, focused on the development of the Dubbo Project. The credentials of Nicholas Earner and David Woodall are detailed in Section 6.9 of the Demerger Booklet.

Having two separate managing directors each with a specific focus on the respective assets of Alkane and ASM is expected to allow for the boards and management of Alkane and ASM to focus on developing their own corporate strategies and streamlining their time and attention towards the individual projects.

8.2.3. Potential opportunity for future takeover

If the Demerger is implemented, the separation of Alkane and ASM may create an opportunity for potential acquirers to access Alkane or ASM as standalone entities, which would not have otherwise been available.

This is particularly so for Alkane as a standalone gold mining company, given that we have observed an increase in M&A activity of gold companies on the ASX in recent years, driven by the high gold prices which peaked on 20 May 2020 to US\$1,748/oz. The economic uncertainty surrounding the impact of COVID-19 and other geopolitical events continues to spur investors towards gold as a safe haven asset, driving prices even higher.

The high gold price is not only beneficial to the value of Alkane’s Tomingley Project, but may also position Alkane as a potential takeover target amidst an environment where consolidation in the gold sector is prevalent. The likelihood of a takeover increases if Alkane becomes a standalone gold company following the Demerger.

A takeover often results in an increase in value for Shareholders. Set out below is a list of recent announced, proposed and completed acquisitions of gold companies on the ASX that have resulted in an increase in value for Shareholders:

Announced Date	Target Company	Acquirer	Announced Transaction Value (\$m)	Announced premium (%)
03/06/2020	Exore Resources Ltd (ASX:ERX)	Perseus Mining Ltd (ASX:PRU)	39.4	57.2%
07/05/2020	ALT Resources Ltd (ASX:ARS)	Aurenne Group Holdings Pty Ltd	29.2	161.7%
16/03/2020	Cardinal Resources Ltd (ASX:CDV)	Nord Gold SE	198.2	34.7%
10/02/2020	Spectrum Resources Limited (ASX:SPX)	Ramelius Resources Limited (ASX:RMS)	187.1	62.5%
18/09/2019	Azumah Resources Limited (ASX:AZM)	IGIC Pte Limited	29.3	136.0%
27/08/2019	Echo Resources Limited (ASX:EAR)	Northern Star Resources Limited (ASX:NST)	173.2	51.7%
30/07/2019	Egan Street Resources (ASX:EGA)	Silver Lake Resources Limited (ASX:SLR)	45.9	41.1%

Announced Date	Target Company	Acquirer	Announced Transaction Value (\$m)	Announced premium (%)
14/06/2019	Bligh Resources Limited (ASX:BGH)	Saracen Minerals Holdings Limited (ASX:SAR)	35.3	114.9%
02/05/2019	Finders Resources Limited (ASX:FND)	Saratoga Investama Sedaya Tbk PT, Provident Capital Indonesia PT, Merdeka Copper Gold Tbk PT	18.1	8.6%
23/09/2018	Beadell Resources Limited (ASX:BDR)	Great Panther Mining Limited	220.0	56.4%
10/09/2018	Explaurum Limited (ASX:EXU)	Ramelius Resources Limited (ASX:RMS)	56.9	52.5%
		Average	93.9	70.7%

Source: Bloomberg.

As Alkane continues to increase its exploration information at the prospective Tomingley Corridor and Boda prospects, a continuation in positive results may make the Company more attractive to a takeover.

8.2.4. Dedicated funding for ASM

Alkane provided ASM with cash of \$20 million for working capital requirements on 1 April 2020.

As detailed in Section 6.6 of the Demerger Booklet, the \$20 million of cash is sufficient for ASM's intended work plan over a budgeted three-year period which is intended to cover:

- Funding of optimisation and feasibility work in relation to a "Clean Metal" metallisation facility to produce and sell relevant products;
- Continuation of the marketing in relation to both the Dubbo Project and potential metallisation facility;
- Initiatives to obtain financing for the Dubbo Project, including progressing debt, equity and strategic partner investment;
- Corporate overheads; and
- Any remaining funding to be provided to RMR Tech to develop the "Clean Metal" technology.

We note that the timing and amount of expenditure over the budgeted period is dependent on progress achieved in securing financing and off-take for the Dubbo Project.

In addition, BDO has previously undertaken an analysis of the cash balances of exploration companies on the ASX, and we consider that ASM will be well positioned amongst its peers in this regard.

To further illustrate the significance of the funding, we have set out the cash position and market capitalisation of resource companies on the ASX with a cash position between \$15 million and \$25 million, based on their cash balance on 31 December 2019 and market capitalisation at 22 May 2020, respectively.

Company Name	Cash and cash equivalents at 31-Dec-19 (\$m)	Market capitalisation at 22-May-20 (\$m)
Arafura Resources Limited	22.9	86.5
Ora Banda Mining Limited	22.9	138.0
Catalyst Metals Limited	21.7	232.4

Company Name	Cash and cash equivalents at 31-Dec-19 (\$m)	Market capitalisation at 22-May-20 (\$m)
Duketon Mining Limited	20.9	17.7
Bellevue Gold Limited	20.7	470.6
Red 5 Limited	20.7	575.6
Cardinal Resources Limited	20.6	202.5
Kingsrose Mining Limited	20.0	30.7
Myanmar Metals Limited	18.4	90.2
Hastings Technology Metals Limited	18.0	96.2
Capral Limited	17.9	49.7
Stavely Minerals Limited	17.5	128.3
TNG Limited	16.4	64.1
Piedmont Lithium Limited	16.2	95.0
Talisman Mining Limited	16.1	17.9
Rand Mining Limited	15.5	117.3
Average	19.1	150.8

Source: Bloomberg and BDO analysis.

Based on the table above, the level of funds available covers a wide range of companies with different market capitalisations, which is a product of company-specific factors. In the case of ASM, the cash position represents a significant initial cash balance for a newly listed entity.

This lowers the chance of ASM needing to raise initial capital following the Demerger, which in turn reduces the likelihood of a dilution to Shareholders' interests in the short term. Although we note that the cash balance is insufficient to fund the construction for the Dubbo Project in the long term, the initial period when there is a lower chance of dilution allows Shareholders to make a decision on whether they wish to retain their exposure in the critical materials industry.

8.3 Disadvantages of the Demerger

We have considered the following disadvantages when assessing the Demerger.

8.3.1 Duplication of corporate costs going forward

The Demerger will result in the creation of a new ASX listed entity with its own separate management structure. It is likely that some additional costs will be incurred by ASM, as a result of the need to maintain its own board of directors, share register, and corporate and administrative functions.

We note that the Demerger Transaction Documents are intended by Alkane to minimise these costs.

8.3.2 Transaction costs related to the Demerger

Alkane estimates incurring a total of \$1.615 million in transaction costs in relation to the Demerger and its listing on the ASX. However, the majority of these costs will be incurred even if the Demerger is not approved by Shareholders.

8.3.3. Minor dilution of Shareholders' interests

As depicted in Section 4, the vesting of certain performance rights as part of the Demerger will result in a dilution of the interest in Alkane and ASM held by Shareholders who are not holders of these performance rights. The example to this was Shareholder 'X', who currently holds a 1.00% interest in Alkane pre-Demerger and is not a holder of the Rights to be vested:

Shareholder 'X'	
<i>Pre-Demerger</i>	
Number of Alkane (merged) Shares held	5,800,000
Total number of Alkane Shares outstanding	580,033,307
Interest in Alkane (%)	1.00%
<i>Post-Demerger</i>	
Number of Alkane (demerged) Shares held	5,800,000
Total number of Alkane Shares outstanding	595,248,891
Interest in Alkane (%)	0.97%
Number of ASM Shares held	1,160,000
Total number of ASM Shares outstanding	119,049,778
Interest in Alkane (%)	0.97%

Source: BDO analysis.

Therefore, the Demerger will result in a minor dilution to interests of some Shareholders. However, we note that this dilution could have occurred if the FY18 and FY19 performance rights vested independent of the Demerger.

8.4 Other factors relevant to the Demerger

In addition to the advantages and disadvantages above, we have also considered the following factors below.

8.4.1. Potential movements in liquidity

As discussed in Section 5.9 of our Report, Alkane shares display a high level of liquidity with 157.83% of the issued capital trading in the 12 months prior to 22 May 2020. It is likely that due to the reduction in size of the entity, that the liquidity of Alkane and ASM post-Demerger are not likely to provide a material benefit to the liquidity experienced currently by Alkane.

8.4.2. Impact of COVID-19

We consider that impact of COVID-19 on the operations of Alkane and ASM and the industries they operate in would be similar whether or not the Demerger proceeds. This is on the basis that the assets held by Alkane and ASM are independent (as discussed in Section 8.1 of our Report) and will experience the same effects of COVID-19 whether they are held together in one entity or separately.

In addition, we note that COVID-19 has contributed to a strengthening in the gold sector, with an observed increase in M&A activity in the recent period. If the Demerger were to be approved in this market, this may increase the probability of a potential takeover of Alkane as a standalone gold company.

8.4.3. Ineligible overseas shareholders

Shareholders of Alkane with addresses that reside outside of Australia and New Zealand will not receive ASM shares under the Demerger. ASM shares that would have otherwise been distributed to Ineligible Shareholders will be transferred to a sale agency, which will sell the shares on the ASX, with net proceeds of the sale to be paid to the Ineligible Shareholders. We note that it is an essential component of the Demerger for the ASX listing of ASM to be secured which will allow this process to take place. Any delay will further disadvantage Ineligible Shareholders.

8.4.4. Taxation implications for Shareholders

The tax implications for Alkane Shareholders are set out in Section 9 of the Demerger Booklet and should be considered by Shareholders in making their assessment in light of their personal circumstances.

9. Conclusion

We have considered the terms of the Demerger as outlined in the body of this Report and the Demerger Booklet and in our opinion, the position of Shareholders if the Demerger is approved is more advantageous than the position if the Demerger is not approved and as such is in the best interest of Shareholders.

Our primary reason for this conclusion is that the gold and critical materials operations currently held by the Company are distinct and independent assets, with minimal benefit arising from being held together in one entity. Although the Demerger will result in an increase in corporate costs going forward, we consider this to be outweighed by the flexibility that Shareholders will receive in their choice of commodity exposure, which can be tailored to their respective portfolios. Furthermore, if the Demerger were to proceed, the focused leadership and management of two separate entities may accelerate the rate of development of the Tomingley Project and the Dubbo Project.

In addition, the Demerger is structured such that there is minimal dilution to the interest held by Shareholders with the exception of the dilution arising from the vesting of certain performance rights. An initial cash balance of \$20 million provided to ASM by Alkane as well as the capitalisation and forgiving of intercompany loans between Alkane and ASM, reduces the need for ASM to raise capital upon its listing on the ASX, thus avoiding further dilution.

While some Shareholders may be concerned with whether the adverse impact of COVID-19 on capital markets justifies delaying or postponing the Demerger, we have also identified in Section 8.4.2 the potential benefit of the current strength of the gold market and gold price for Alkane as a standalone gold company.

10. Sources of information

This report has been based on the following information:

- Draft Demerger Booklet on or about the date of this report;

- Audited financial statements of Alkane for the years ended 30 June 2019 and 30 June 2018;
- Reviewed financial statements of Alkane for the half year ended 31 December 2019;
- Share registry information of Alkane as at 11 May 2020;
- Bloomberg;
- S&P Capital IQ;
- RBA monetary policy decisions for 2019 and 2020;
- IBIS World;
- United States Geological Survey;
- Energy and Metals Consensus Forecast for 2020;
- Information in the public domain; and
- Discussions with Directors and Management of Alkane.

11. Independence

BDO Corporate Finance (WA) Pty Ltd is entitled to receive a fee of \$28,000 (excluding GST and reimbursement of out of pocket expenses). The fee is not contingent on the conclusion, content or future use of this Report. Except for this fee, BDO Corporate Finance (WA) Pty Ltd has not received and will not receive any pecuniary or other benefit whether direct or indirect in connection with the preparation of this report.

BDO Corporate Finance (WA) Pty Ltd has been indemnified by Alkane in respect of any claim arising from BDO Corporate Finance (WA) Pty Ltd's reliance on information provided by the Alkane, including the non-provision of material information, in relation to the preparation of this report.

Prior to accepting this engagement BDO Corporate Finance (WA) Pty Ltd has considered its independence with respect to Alkane and any of their respective associates with reference to ASIC Regulatory Guide 112 'Independence of Experts'. In BDO Corporate Finance (WA) Pty Ltd's opinion it is independent of Alkane and their respective associates.

Neither the two signatories to this report nor BDO Corporate Finance (WA) Pty Ltd, have had within the past two years any professional relationship with Alkane, or their associates, other than in connection with the preparation of this report.

A draft of this report was provided to Alkane and its advisors for confirmation of the factual accuracy of its contents. No significant changes were made to this report as a result of this review.

BDO is the brand name for the BDO International network and for each of the BDO Member firms.

BDO (Australia) Ltd, an Australian company limited by guarantee, is a member of BDO International Limited, a UK company limited by guarantee, and forms part of the international BDO network of Independent Member Firms. BDO in Australia, is a national association of separate entities (each of which has appointed BDO (Australia) Limited ACN 050 110 275 to represent it in BDO International).

12. Qualifications

BDO Corporate Finance (WA) Pty Ltd has extensive experience in the provision of corporate finance advice, particularly in respect of takeovers, mergers and acquisitions.

BDO Corporate Finance (WA) Pty Ltd holds an Australian Financial Services Licence issued by the Australian Securities and Investment Commission for giving expert reports pursuant to the Listing rules of the ASX and the Corporations Act.

The persons specifically involved in preparing and reviewing this report were Adam Myers and Sherif Andrawes of BDO Corporate Finance (WA) Pty Ltd. They have significant experience in the preparation of independent expert reports, valuations and mergers and acquisitions advice across a wide range of industries in Australia and were supported by other BDO staff.

Adam Myers is a member of the Australian Institute of Chartered Accountants. Adam's career spans 20 years in the Audit and Assurance and Corporate Finance areas. Adam is a CA BV Specialist and has considerable experience in the preparation of independent expert reports and valuations in general for companies in a wide number of industry sectors.

Sherif Andrawes is a Fellow of the Institute of Chartered Accountants in England & Wales and a Fellow of Chartered Accountants Australia & New Zealand. He has over 30 years' experience working in the audit and corporate finance fields with BDO and its predecessor firms in London and Perth. He has been responsible for over 300 public company independent expert's reports under the Corporations Act or ASX Listing Rules and is a CA BV Specialist. These experts' reports cover a wide range of industries in Australia with a focus on companies in the natural resources sector. Sherif Andrawes is the Corporate Finance Practice Group Leader of BDO in Western Australia, the Global Natural Resources Leader for BDO and a former Chairman of BDO in Western Australia.

13. Disclaimers and consents

This report has been prepared at the request of Alkane for inclusion in the Demerger Booklet which will be sent to all Alkane Shareholders. Alkane engaged BDO Corporate Finance (WA) Pty Ltd to prepare an independent expert's report to consider the proposed Demerger of its critical materials subsidiary, ASM.

BDO Corporate Finance (WA) Pty Ltd hereby consents to this report accompanying the above Demerger Booklet. Apart from such use, neither the whole nor any part of this report, nor any reference thereto may be included in or with, or attached to any document, circular resolution, statement or letter without the prior written consent of BDO Corporate Finance (WA) Pty Ltd.

BDO Corporate Finance (WA) Pty Ltd takes no responsibility for the contents of the Demerger Booklet other than this report.

We have no reason to believe that any of the information or explanations supplied to us are false or that material information has been withheld. It is not the role of BDO Corporate Finance (WA) Pty Ltd acting as an independent expert to perform any due diligence procedures on behalf of the Company. BDO Corporate Finance (WA) Pty Ltd provides no warranty as to the adequacy, effectiveness or completeness of the due diligence process.

The opinion of BDO Corporate Finance (WA) Pty Ltd is based on the market, economic and other conditions prevailing at the date of this report. Such conditions can change significantly over short periods of time.

With respect to taxation implications it is recommended that individual Shareholders obtain their own taxation advice, in respect of the Demerger, tailored to their own particular circumstances. Furthermore, the advice provided in this report does not constitute legal or taxation advice to the Shareholders of Alkane, or any other party.

The statements and opinions included in this report are given in good faith and in the belief that they are not false, misleading or incomplete.

The terms of this engagement are such that BDO Corporate Finance (WA) Pty Ltd is required to provide a supplementary report if we become aware of a significant change affecting the information in this report arising between the date of this report and prior to the date of the meeting or during the offer period.

Yours faithfully

BDO CORPORATE FINANCE (WA) PTY LTD

A handwritten signature in black ink, appearing to read 'Adam Myers'.

Adam Myers

Director

A handwritten signature in black ink, appearing to read 'Sherif Andrawes'.

Sherif Andrawes

Director

Appendix 1 - Glossary of Terms

Reference	Definition
The Act	The Corporations Act 2001 Cth
AFCA	Australian Financial Complaints Authority
Alkane	Alkane Resources Limited
Anglo American	Anglo American PLC
ANSTO	Australian Nuclear Science and Technology Operations
ASIC	Australian Securities and Investments Commission
ASM	Australian Strategic Materials Limited
ASX	Australian Securities Exchange
AUD or A\$	Australian dollars
AZH	Australian Zirconia Holdings Pty Ltd
BDO	BDO Corporate Finance (WA) Pty Ltd
Boda	Bodangora exploration license under the Northern Molong Porphyry Project
Calidus	Calidus Resources Limited
CBMM	Metalurgia Companhia Brasileira de Metalurgia e Mineração
CNU	Chungnam National University
Conditions	The conditions necessary for the successful implementation of the Demerger
the Company	Alkane Resources Limited
Compass Resources	Compass Resources NL
Corporations Act	The Corporations Act 2001 Cth
Demerger	The demerger proposed by Alkane Resources Limited
Demerger Booklet	Booklet provided by Alkane to shareholders to assist in deciding on whether to approve the proposed Demerger

Reference	Definition
Demerger Deed	The deed entered into between ASM and Alkane that deals with the issues arising in connection with the Demerger and separation of ASM from Alkane, and the ongoing relationship between Alkane and ASM after the implementation of the Demerger, such that each part may carry forward the commercial benefits, risks and liabilities of the relevant business independently without shared liability
Demerger Transaction Documents	Refers to the Demerger Deed, Restructure Deed and ISA
the Directors	The board of directors of Alkane Resources Limited
DPP	Demonstration Pilot Plant
FEED	Front End Engineering Design
FOS	Financial Ombudsman Service
FSG	Financial Services Guide
FYXX	Financial year ended 30 June 20XX
Genesis	Genesis Minerals Limited
GDP	Gross Domestic Product
HREE	Heavy Rare Earth Elements
Ineligible Shareholders	Alkane shareholders with addresses on the share register that reside outside of Australia or New Zealand
ISA	Intercompany Services Agreement entered into between ASM and Alkane that deals with the provision of professional and IT support services, as well as access to certain office facilities between Alkane and ASM following the Demerger
Lol	Letter of Intent
LREE	Light Rare Earth Elements
Magris	Magris Resources Inc.
MoU	Memoranda of Understanding
NMPP	Northern Molong Porphyry Project
NSW	New South Wales
Peak Hill Project	The Peak Hill Gold Mine that was formerly operated by Alkane from 1996 to 2002

Reference	Definition
PP&E	Property, Plant and Equipment
Proposed Transaction	The demerger proposed by Alkane Resources Limited
RBA	Reserve Bank of Australia
RC	Reverse circulation
REE	Rare earth elements
our Report	This Independent Expert's Report prepared by BDO
Restructure Deed	The deed entered into between ASM and Alkane that deals with the multiple intra group restructuring steps that must be implemented prior to the Demerger with respect to various existing intercompany loans between Alkane and ASM
RG 111	Australian Securities and Investments Commission Regulatory Guide 111 'Content of Expert's Reports'
RG 112	Australian Securities and Investments Commission Regulatory Guide 111 'Independence of Experts'
Rights	Performance rights on issue by Alkane
Shareholders	Eligible shareholders of Alkane Resources Limited
TGO	Tomingley Gold Operations Pty Ltd
Tomingley Corridor	The gold corridor between the Tomingley Project and the Peak Hill Project
Tomingley Project	The gold project 100%-owned by Alkane Resources Limited
Toongi Pastoral	Toongi Pastoral Company Pty Limited
TSR	Total Shareholder Return
ZTC	Zirconium Technology Corporation

Copyright © 2020 BDO Corporate Finance (WA) Pty Ltd

All rights reserved. No part of this publication may be reproduced, published, distributed, displayed, copied or stored for public or private use in any information retrieval system, or transmitted in any form by any mechanical, photographic or electronic process, including electronically or digitally on the Internet or World Wide Web, or over any network, or local area network, without written permission of the author. No part of this publication may be modified, changed or exploited in any way used for derivative work or offered for sale without the express written permission of the author.



For permission requests, write to BDO Corporate Finance (WA) Pty Ltd, at the address below:

The Directors

BDO Corporate Finance (WA) Pty Ltd

38 Station Street

SUBIACO, WA 6008

Australia

ANNEXURE 4

Investigating Accountant's Report



The Directors
Alkane Resources Ltd (**Alkane**)
89 Burswood Road
BURSWOOD WA 6100

The Directors
Australian Strategic Materials Ltd (**ASM**)
89 Burswood Road
BURSWOOD WA 6100

16 June 2020

Dear Directors

Investigating Accountant's Report

Independent Limited Assurance Report on the historical and pro forma historical balance sheets of Alkane and ASM and Financial Services Guide

We have been engaged by Alkane and ASM (together, **you**) to report on the Alkane Historical and Pro Forma Historical Balance Sheets and the ASM Historical and Pro Forma Historical Balance Sheets (as those terms are defined in the "Scope" section of this report) for inclusion in the Demerger Booklet dated on or about 16 June 2020, to be issued by Alkane in respect of the proposed demerger of ASM from Alkane (the **Demerger**).

Expressions and terms defined in the Demerger Booklet have the same meaning in this report.

The nature of this report is such that it can only be issued by an entity which holds an Australian Financial Services License under the Corporations Act 2001. PricewaterhouseCoopers Securities Ltd, which is wholly owned by PricewaterhouseCoopers holds the appropriate Australian financial services license under the Corporations Act 2001. This report is both an Investigating Accountant's Report, the scope of which is set out below, and a Financial Services Guide, as attached at Appendix A.

Scope

Alkane and ASM historical balance sheets

You have requested PricewaterhouseCoopers Securities Ltd to review the following historical balance sheets included in the Demerger Booklet, the:

- Alkane historical balance sheet as at 31 December 2019 (**Alkane Historical Balance Sheet**) as set out in table 5.6A in section 5.6 of the Demerger Booklet; and
- ASM historical balance sheet as at 31 December 2019 (**ASM Historical Balance Sheet**) as set out in table 7.6 in section 7.6 of the Demerger Booklet.

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

Brookfield Place, 125 St Georges Terrace, PERTH WA 6000, GPO Box D198, PERTH WA 6840
T: +61 8 9238 3000, F: +61 8 9238 3999, www.pwc.com.au



The Alkane and ASM Historical Balance Sheets have been prepared in accordance with the stated basis of preparation, being the recognition and measurement principles contained in Australian Accounting Standards and Alkane's and ASM's adopted accounting policies. The Alkane Historical Balance Sheet has been extracted from the interim financial report of Alkane for the half year ended 31 December 2019, which was reviewed by PricewaterhouseCoopers in accordance with the Australian Auditing Standards and upon which PricewaterhouseCoopers issued an unmodified review opinion. The ASM Historical Balance Sheet has been extracted from the interim financial report of ASM for the half year ended 31 December 2019, which was reviewed by PricewaterhouseCoopers in accordance with the Australian Auditing Standards and upon which PricewaterhouseCoopers issued an unmodified review opinion with an emphasis of matter with respect to the basis of accounting and restriction on use. The Alkane and ASM Historical Balance Sheets are presented in the Demerger Booklet in an abbreviated form, insofar as it does not include all of the presentation and disclosures required by Australian Accounting Standards and other mandatory professional reporting requirements applicable to general purpose financial reports prepared in accordance with the Corporations Act 2001.

Alkane (post-demerger) and ASM pro forma historical balance sheets

You have requested PricewaterhouseCoopers Securities Ltd to review the following pro forma historical balance sheets included in the Demerger Booklet, the:

- Alkane (post-demerger) pro forma historical balance sheet as at 31 December 2019 (**Alkane pro forma historical balance sheet**) as set out in table 5.6A in section 5.6 of the Demerger Booklet; and
- ASM pro forma historical balance sheet as at 31 December 2019 (**ASM pro forma historical balance sheet**) as set out in table 7.6 in section 7.6 of the Demerger Booklet.

The Alkane and ASM Pro Forma Historical Balance Sheets have been derived from the Alkane and ASM Historical Balance Sheets, after adjusting for the effects of pro forma adjustments described in sections 5.6 and 7.6 of the Demerger Booklet. The stated basis of preparation is the recognition and measurement principles contained in Australian Accounting Standards and Alkane's and ASM's (as applicable) adopted accounting policies applied to the Alkane Historical Balance Sheet and ASM Historical Balance Sheet (as applicable) and the events or transactions to which the pro forma adjustments relate, as described in sections 5.6(b) and 7.6(b) of the Demerger Booklet, as if those events or transactions had occurred as at 31 December 2019. Due to its nature, the Alkane Pro Forma Historical Balance Sheet and ASM Pro Forma Historical Balance Sheet (as the case may be) does not represent Alkane's and ASM's (as applicable) actual or prospective financial performance, financial position and/or cash flows.

Directors' responsibility

The directors of Alkane are responsible for the preparation of the Alkane and ASM Historical Balance Sheets and the Alkane and ASM Pro Forma Historical Balance Sheets, including their basis of preparation and the selection and determination of pro forma adjustments made to the historical balance sheets and included in the pro forma historical balance sheets. This includes responsibility for its compliance with applicable laws and regulations and for such internal controls as the directors determine are necessary to enable the preparation of historical balance sheets and pro forma historical balance sheets that are free from material misstatement.



Our responsibility

Our responsibility is to express a limited assurance conclusion on the Alkane and ASM Historical Balance Sheets and the Alkane and ASM Pro Forma Historical Balance Sheets based on the procedures performed and the evidence we have obtained. We have conducted our engagement in accordance with the Standard on Assurance Engagement ASAE 3450 *Assurance Engagements involving Corporate Fundraisings and/or Prospective Financial Information*.

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

Our engagement did not involve updating or re-issuing any previously issued audit or review report on any financial information used as a source of the financial information.

Conclusions

Alkane and ASM historical balance sheets

Based on our review, which is not an audit, nothing has come to our attention that causes us to believe that the:

- Alkane historical balance sheet as at 31 December 2019 as set out in table 5.6A in section 5.6 of the Demerger Booklet; and
- ASM historical balance sheet as at 31 December 2019 as set out in table 7.6 in section 7.6 of the Demerger Booklet,

are not presented fairly, in all material respects, in accordance with the stated basis of preparation, as described in sections 5.2(b) and 7.2(b) of the Demerger Booklet.

Alkane (post-demerger) and ASM pro forma historical balance sheets

Based on our review, which is not an audit, nothing has come to our attention that causes us to believe that the

- Alkane (post-demerger) pro forma historical balance sheet as at 31 December 2019 as set out in table 5.6A in section 5.6 of the Demerger Booklet; and
- ASM pro forma historical balance sheet as at 31 December 2019 as set out in table 7.6 in section 7.6 of the Demerger Booklet,

in each case, which assumes completion of the Demerger,

are not presented fairly, in all material respects, in accordance with the stated basis of preparation, as described in sections 5.2(c) and 7.2(c) of the Demerger Booklet.



Notice to investors outside Australia

Under the terms of our engagement this report has been prepared solely to comply with Australian Auditing Standards applicable to review engagements.

This report does not constitute an offer to sell, or a solicitation of an offer to buy, any securities. We do not hold any financial services licence or other licence outside Australia. We are not recommending or making any representation as to suitability of any investment to any person.

Restriction on Use

Without modifying our conclusions, we draw attention to the sections 5.2 and 7.2 of the Demerger Booklet, which describes the purpose of the financial information, being for inclusion in the Demerger Booklet. As a result, the financial information may not be suitable for use for another purpose.

Consent

PricewaterhouseCoopers Securities Ltd has consented to the inclusion of this assurance report in the public document in the form and context in which it is included.

Liability

The liability of PricewaterhouseCoopers Securities Ltd is limited to the inclusion of this report in the Demerger Booklet. PricewaterhouseCoopers Securities Ltd makes no representation regarding, and has no liability for, any other statements or other material in, or omissions from the Demerger Booklet.

Independence or Disclosure of Interest

PricewaterhouseCoopers Securities Ltd does not have any interest in the outcome of this Demerger other than the preparation of this report and participation in due diligence procedures for which normal professional fees will be received.

Financial Services Guide

We have included our Financial Services Guide as Appendix A to our report. The Financial Services Guide is designed to assist retail clients in their use of any general financial product advice in our report.

Yours faithfully

A handwritten signature in black ink, appearing to read 'D. Carton', is written over a faint, larger version of the same signature.

Darren Carton
Authorised Representative of
PricewaterhouseCoopers Securities Ltd



Appendix A – Financial Services Guide

PRICEWATERHOUSECOOPERS SECURITIES LTD FINANCIAL SERVICES GUIDE

This Financial Services Guide is dated 16 June 2020

1. About us

PricewaterhouseCoopers Securities Ltd (ABN 54 003 311 617, Australian Financial Services Licence no 244572) (**PwC Securities**) has been engaged by Alkane Resources Ltd (**Alkane**) and Australian Strategic Materials Ltd (**ASM**) to provide a report in the form of an Investigating Accountant's Report (the **Report**) in relation to the Alkane Historical and Pro Forma Historical Balance Sheets and the ASM Historical and Pro Forma Historical Balance Sheets (as those terms are defined in the Report) for inclusion in the Demerger Booklet to be dated on or about 16 June 2020 and relating to the proposed demerger of ASM from Alkane.

You have not engaged us directly but have been provided with a copy of the Report as a retail client because of your connection to the matters set out in the Report.

2. This Financial Services Guide

This Financial Services Guide ("**FSG**") is designed to assist retail clients in their use of any general financial product advice contained in the Report. This FSG contains information about PwC Securities generally, the financial services we are licensed to provide, the remuneration we may receive in connection with the preparation of the Report, and how complaints against us will be dealt with.

3. Financial services we are licensed to provide

Our Australian financial services licence allows us to provide a broad range of services, including providing financial product advice in relation to various financial products such as securities, interests in managed investment schemes, derivatives, superannuation products, foreign exchange contracts, insurance products, life products, managed investment schemes, government debentures, stocks or bonds, and deposit products.



4. General financial product advice

The Report contains only general financial product advice. It was prepared without taking into account your personal objectives, financial situation or needs.

You should consider your own objectives, financial situation and needs when assessing the suitability of the Report to your situation. You may wish to obtain personal financial product advice from the holder of an Australian Financial Services Licence to assist you in this assessment.

5. Fees, commissions and other benefits we may receive

PwC Securities charges fees to produce reports, including this Report. These fees are negotiated and agreed with the entity who engages PwC Securities to provide a report. Fees are charged on an hourly basis or as a fixed amount depending on the terms of the agreement with the person who engages us. In the preparation of this Report our fees are charged are \$200,000 (excluding GST).

Directors or employees of PwC Securities, PricewaterhouseCoopers, or other associated entities, may receive partnership distributions, salary or wages from PricewaterhouseCoopers.

6. Associations with issuers of financial products

PwC Securities and its authorised representatives, employees and associates may from time to time have relationships with the issuers of financial products. For example, PricewaterhouseCoopers may be the auditor of, or provide financial services to, the issuer of a financial product and PwC Securities may provide financial services to the issuer of a financial product in the ordinary course of its business. PricewaterhouseCoopers is the auditor of Alkane and ASM.

7. Complaints

If you have a complaint, please raise it with us first, using the contact details listed below. We will endeavour to satisfactorily resolve your complaint in a timely manner. In addition, a copy of our internal complaints handling procedure is available upon request.

If we are not able to resolve your complaint to your satisfaction within 45 days of your written notification, you are entitled to have your matter referred to the Australian Financial Complaints Authority (“AFCA”), an external complaints resolution service. AFCA can be contacted by calling 1800 931 678. You will not be charged for using the AFCA service.

8. Contact Details

PwC Securities can be contacted by sending a letter to the following address:

Darren Carton
Authorised representative of PwC Securities
Brookfield Place, 125 St Georges Terrace, PERTH WA 6000

DIRECTORY

Alkane Directors

Ian Jeffrey Gandel (Non-Executive Chairman)
Nicolas Earner (Managing Director)
David Ian Chalmers (Technical Director)
Anthony Dean Lethlean (Non-Executive Director)
Gavin Smith (Non-Executive Director)

Company Secretary

Dennis Wilkins
James Carter

Registered Office

Alkane Resources Ltd
ACN: 000 689 216
89 Burswood Road
Burswood
WA 6100
Tel: +61 8 9227 5677
Fax: +61 8 9227 8178
Email: info@alkane.com.au
Web: www.alkane.com.au

Postal Address

PO Box 4384
Victoria Park
WA 6979

Securities Exchange

Australian Securities Exchange
ASX Code: ALK

Share Registry

Advanced Share Registry Services
110 Stirling Highway
Nedlands
WA 6009
Tel: +61 8 9389 8033
Fax: +61 8 9262 3723

PO Box 1156
Nedlands
WA 6909

