ESSENTIALMETALS

for a sustainable future

# ANNUAL REPORT 2022

FOR THE YEAR ENDED 30 JUNE 2022

ABN 44 103 423 981

# CORPORATE DIRECTORY

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Independent Non-Executive Chairman

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Managing Director

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Independent Non-Executive Director

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**SECURITIES EXCHANGE LISTING**
The Company's shares and listed share options are quoted on the Australian Securities Exchange.

**ASX CODE**
ESS - ordinary shares
ESSO - listed share options

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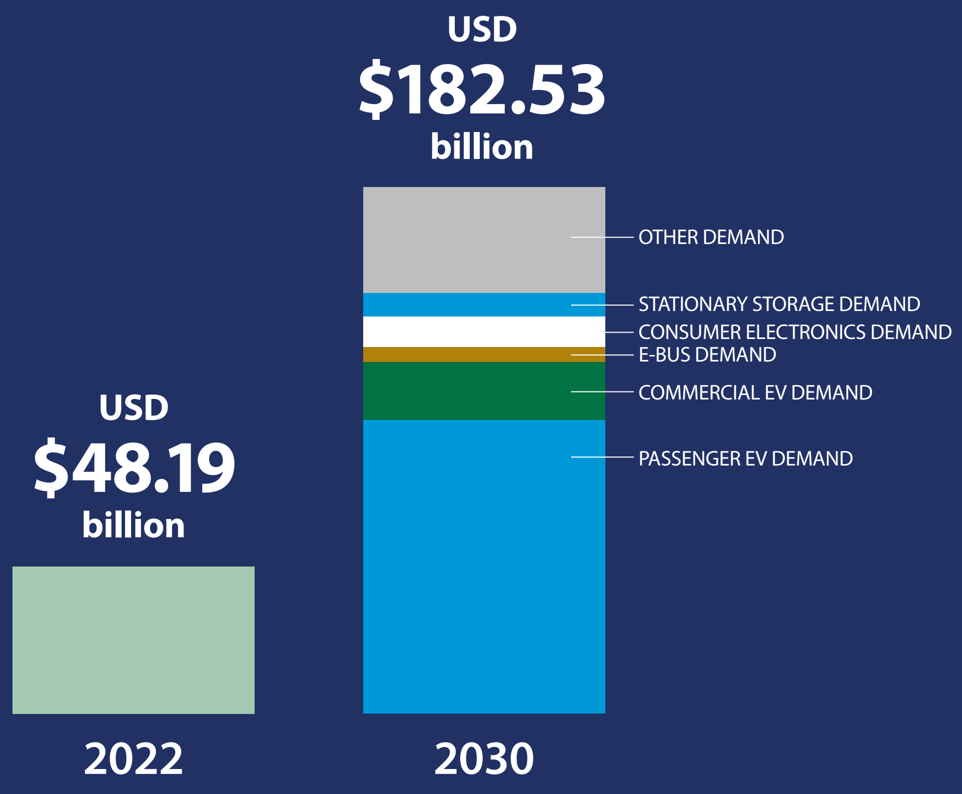
# LITHIUM MARKET **OVERVIEW**

# LITHIUM MARKET **OVERVIEW**

We have now begun our journey into the Battery Age. As a result the booming demand that this has caused, Lithium is now one of the most sought after commodities in the world.

## Global Lithium-Ion Battery Market today and by 2030.

Market forecast to grow at a CAGR of 18.1%[1]




## Key Demand Driver

200 new battery mega-factories planned by 2030[2]


*Electric vehicle battery factory under construction in Austin , Texas , USA*

*1 Source: IEA analysis based on S&P Global (2021), visualising the Global Demand for Lithium*

*2 Source: Green Car Reports Not enough battery factories to support EVs' global rise past ICE vehicles in 2030 (Stephen Edelstein) (2021)*

# LETTER FROM THE **CHAIRMAN**

**The success of any business starts with its people, values, vision, and commitment to executing that vision. We believe that the core of our Company's vision is perfectly aligned with the forecast growth of the lithium-ion battery sector over the coming years.**

We are in the enviable position of progressing our 100% owned Pioneer Dome Lithium Project in Western Australia, a tier 1 international mining jurisdiction.

As the effects of the COVID-19 global pandemic continues to deliver uncertainty on a macro scale, we see a great opportunity for our shareholders to participate as a new force in lithium and the attendant environmental advantages of its application.

With ever increasing demands from regulators and the focus on our social license to operate within various local and foreign communities, we see Essential Metals' portfolio of projects placing your Company in a position to not just participate in, but to become a new force in the global lithium supply chain.

The Essential Metals team led by Managing Director, Tim Spencer, has made significant progress in advancing the Pioneer Dome to development with a scoping study commencing in the September 2022 quarter with anticipated completion in Q4 of 2022.

The team at Essential Metals is more unified and adaptable than ever before and I am confident given the committed approach of that team there will be significant achievements in the year to come for which I thank them. I would also like to thank the various stakeholders in your Company's projects, particularly the Ngadju People, the traditional owners of the land on which Essential Metals operates, our contractors, joint venture partners and our shareholders.

I look forward to your continued support and keeping you updated on our progress.

Yours faithfully,

**Craig McGown**
Chairman of the Board of Directors

# LETTER FROM THE MANAGING DIRECTOR

**Driven by concern over climate change, the demand outlook for lithium-ion batteries, particularly for the use in mobility applications such as electric vehicles, is getting stronger and clearer as each month passes. Paradoxically, it is also becoming clearer that the supply of lithium will not be able to keep up with future latent demand and it is evident that ESG compliant lithium from spodumene hard rock deposits located in low risk jurisdictions such as Western Australia is and will be the most sought after lithium supply source.**

Essential Metals is very fortunate to own 100% of the Pioneer Dome Lithium Project that contains the Dome North spodumene lithium Mineral Resource of 11.2Mt @ 1.21% $Li_2O$ in the northern part of the Project area. The Pioneer Dome Project is located in the core of Western Australia's lithium corridor in the Eastern Goldfields, approximately 130km south of Kalgoorlie and 275km north of the Port of Esperance.

As at the date of this report, Dome North is one of only 13 lithium Mineral Resources located in Australia. This is evidence of the fact that finding spodumene deposits is difficult, adding to the challenges of meeting future lithium demand expectations.

We are closing in on our objective of becoming a new force in the lithium supply chain as we advance the Dome North Mineral Resource by improving its quality and confidence. Outstanding drill results and metallurgical test work carried out this year has demonstrated the potential for taking the Project forward by undertaking feasibility studies, commencing with a Mineral Resource Update and a Scoping Study targeted to be completed by the end of 2022.

The Essential Metals team is excited and committed to advancing our projects, particularly our lithium projects, to continue to create shareholder value.

Yours faithfully,

**Timothy Spencer**
Managing Director


www.topdrill.com.au

# OPERATIONAL AND **FINANCIAL REVIEW**

# PIONEER DOME LITHIUM PROJECT (ESS: 100%)

## LOCATION, TENURE AND INFRASTRUCTURE

Essential Metals Limited's ('Essential', or 'the Company') flagship Pioneer Dome Lithium Project (ESS: 100%) is located in the core of Western Australia's lithium belt in the Eastern Goldfields, part of the Yilgarn Craton. A Mineral Resource of 11.2Mt @ 1.21% $Li_2O$ has been defined at Dome North within the northern area of the Project (Refer ASX announcement dated 29 September 2020) and a Mineral Resource Estimate update is planned to be undertaken in the December 2022 quarter to underpin a Scoping Study.

The southern Yilgarn area is recognised as being well endowed with spodumene deposits, including the Bald Hill Mine, the Mt Marion Mine, the Manna Project and the Buldania Project. The world-class Greenbushes Mine, Mt Holland Mine and the Mt Cattlin Mine are located further west of the Pioneer Dome Lithium Project.

The Pioneer Dome Lithium Project covers an area of 450km2 and includes eight exploration licences, one granted mining lease and one granted miscellaneous licence. A Mining Lease application is currently under application to cover the Dome North Mineral Resource.

The tenement package is located ~150km south of Kalgoorlie and 275km north of the deep-water port of Esperance with the Coolgardie-Esperance Highway adjacent to the eastern edge of the Project. A gas pipeline and water pipeline are located alongside the main highway which is located 10km from the Project with access via an unsealed access road.

# OPERATIONAL AND **FINANCIAL REVIEW**

## GEOLOGY AND MINERALISATION

The core intrusive of the Pioneer Dome is a monzogranite. The eastern edge is marked by the 50 Mile Tank Gneiss, an older unit that has been intruded by the granite that may represent an inlier of pre-greenstone basement. Surrounding greenstone units include volcanics of the Kalgoorlie Group (including the Kambalda Komatiite), overlain by volcaniclastics and sediments of the Black Flag Group.

Rare element pegmatites are present within the Pioneer Dome Project. Dome North contains spodumene bearing pegmatites and the pegmatites around the Sinclair area have pollucite-petalite-lepidolite mineralisation. Pegmatites have been identified over greater than 15 km strike length on the eastern side of the Pioneer Monzogranite. A second group (Dome North) is present near the northern end of the monzogranite.

The Dome North pegmatites were discovered in mid-2019 by geological mapping and rock chip sampling over geochemical target areas. Drilling to define the mineralisation commenced shortly thereafter. The initial Mineral Resource Estimate ('MRE') for the Cade Deposit, of 8.2 Mt @ 1.23% Li2O was announced to the market on 25 November 2019.

Further work identified the Davy and Heller deposits, and following a second drill programme, an updated MRE, as presented in Table 1, was reported to ASX on 29 September 2020.

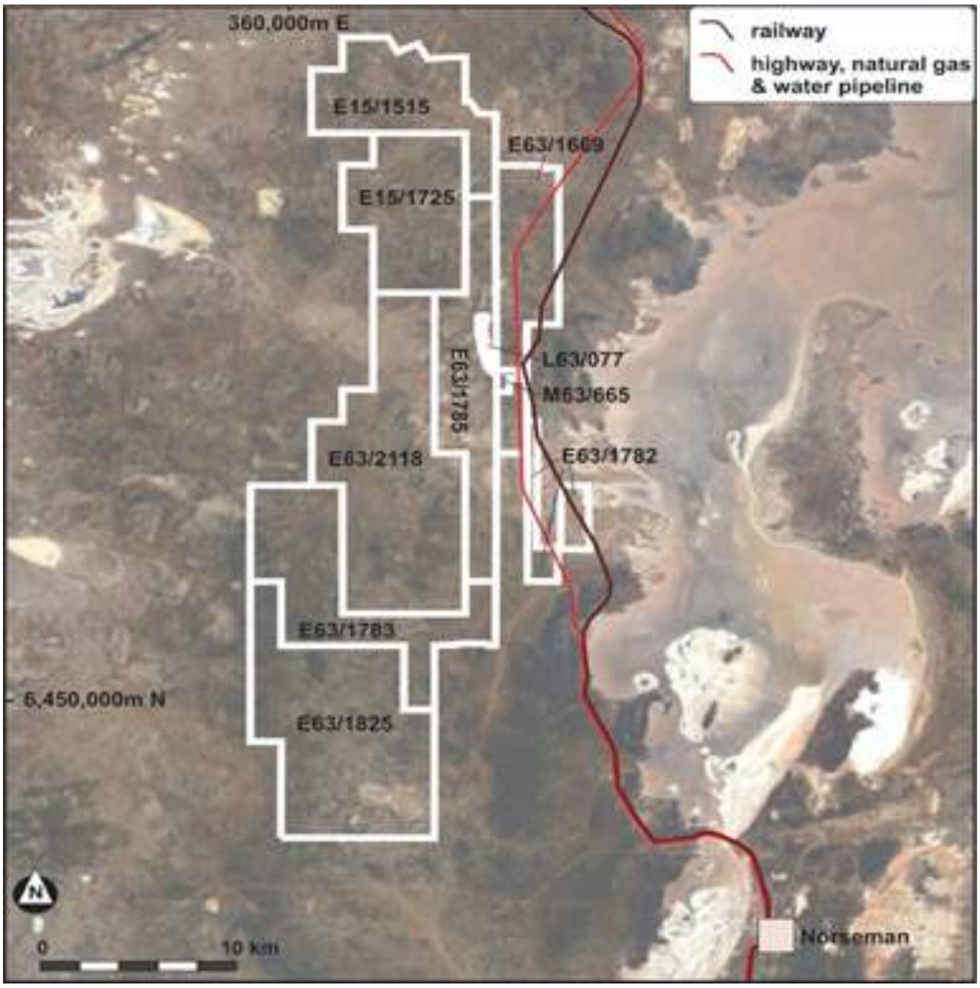



***Figure 1.***
*The location of the tenements of the Pioneer Dome Lithium Project relative to major infrastructure.*

# OPERATIONAL AND FINANCIAL REVIEW

## DOME NORTH LITHIUM MINERAL RESOURCE ESTIMATE

| The Dome North Lithium Project | | | | |
|---|---|---|---|---|
| **Project area** | **Category** | **Tonnes (Mt)** | **Grade ($Li_2O$ %)** | **Tonnes $Li_2O$** |
| Cade Deposit | Indicated | 5.4 | 1.30 | 70,000 |
| | Inferred | 2.8 | 1.18 | 33,000 |
| Davy Deposit | Inferred | 2.3 | 1.13 | 25,000 |
| Heller Deposit | Inferred | 0.7 | 1.02 | 8,000 |
| **Total** | | **11.2** | **1.21** | **136,000** |

***TABLE 1.***
*Dome North MRE*

The Cade Deposit represents approximately three quarters of the Mineral Resource and includes 5.4Mt @ 1.3% lithium (Li2O) classified in the 'Indicated' category. The Cade Deposit averages over 20m in thickness with higher grade zones as represented by intersections such as 33m @ 1.63% Li2O. The Heller and Davy Deposits are generally thinner (averaging around 10m) and are hosted in pre-existing structures within basalt and pyroxene dominant ultramafic units.

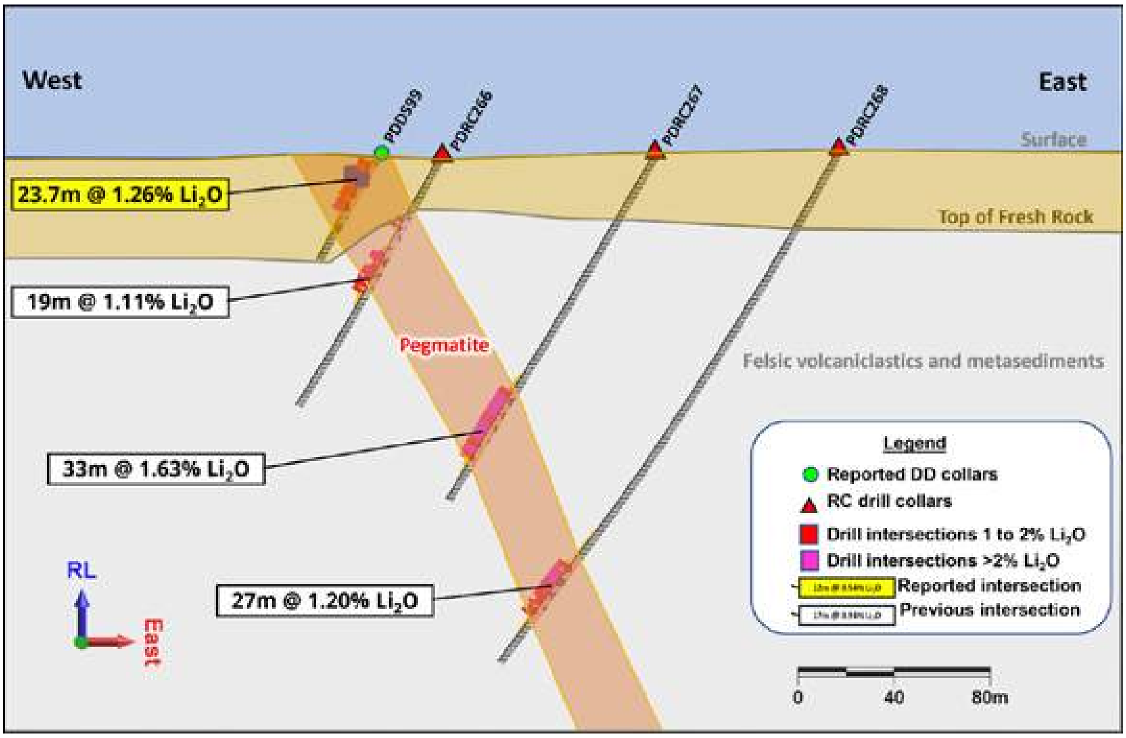



***Figure 2.***
*Cade deposit cross section, looking north demonstrating the high grade nature of the Cade Deposit from surface.*

During the Reporting Period, work activities have focussed on improving the confidence and quality of the Lithium Mineral Resource in order to advance the Project towards development. This has been achieved by firstly drilling the near-surface upper zones of the Davy and Cade deposits to determine the extent of weathering and lithium depletion.

# OPERATIONAL AND **FINANCIAL REVIEW**

On 15 October 2021, Essential announced the assay results from four RC drill holes completed in the upper zone of the Cade Deposit designed to better understand the weathering profile and evidence of any lithium depletion. Assay results included:

- 21m @ 1.08% Li2O from surface (PDRC589)
- 24m @ 1.29% Li2O from surface (PDRC590)
- 15m @ 1.06% Li2O from 47 metres (PDRC591)
- 26m @ 1.46% Li2O from 51 metres (PDRC592)

The next drill programme was completed in the March 2022 quarter and the assays were reported in June. The main objectives were to increase confidence in the Lithium Mineral Resource Estimate by converting a large part of the Davy deposit and areas across the upper zone of the Cade deposit from the Inferred to Indicated Resource categories by in-fill drilling, measuring the bulk densities and completing metallurgical test work. The assays and logged mineralogy indicate that this should be achievable, subject to metallurgical test work. An update of the Mineral Resource Estimate is planned for the December quarter. Results from the 2022 drilling are shown in in Table 2.

| Area | Hole_ID | From (m) | To (m) | Width (m) | Li2O% |
|---|---|---|---|---|---|
| Cade | PDD595 | 11.6 | 26.3 | 14.7 | 0.90 |
| Cade | PDD596 | 15 | 34.2 | 19.2 | 1.44 |
| Cade | PDD596 | 51 | 53.7 | 2.7 | 2.28 |
| Cade | PDD597 | 18.5 | 28.5 | 10 | 1.13 |
| Cade | PDD598 | 14.4 | 24 | 9.6 | 1.42 |
| Cade | PDD599 | 3.6 | 27.3 | 23.7 | 1.26 |
| Cade | PDD600 | 21.1 | 40 | 18.9 | 1.24 |
| Cade | PDD600 | 46.8 | 52.3 | 5.5 | 1.19 |
| Davy | PDD601 | 45.4 | 77.35 | 31.95 | 1.24 |
| Davy | PDD603 | 17 | 35.7 | 18.7 | 1.05 |
| Davy | PDD604 | 99.2 | 110.3 | 11.1 | 1.70 |
| Davy | PDD605 | 97.1 | 114.1 | 17 | 1.32 |
| Davy | PDD606 | 72.6 | 84.2 | 11.6 | 0.82 |

***TABLE 2.***
*Significant lithium intersections from 2022 drilling**

** Intersections calculated using 0.5% Li2O lower cut-off. All depths and widths are down-hole measurements. True width may be less than down hole length (Refer ASX announcement dated 7 June 2022).*

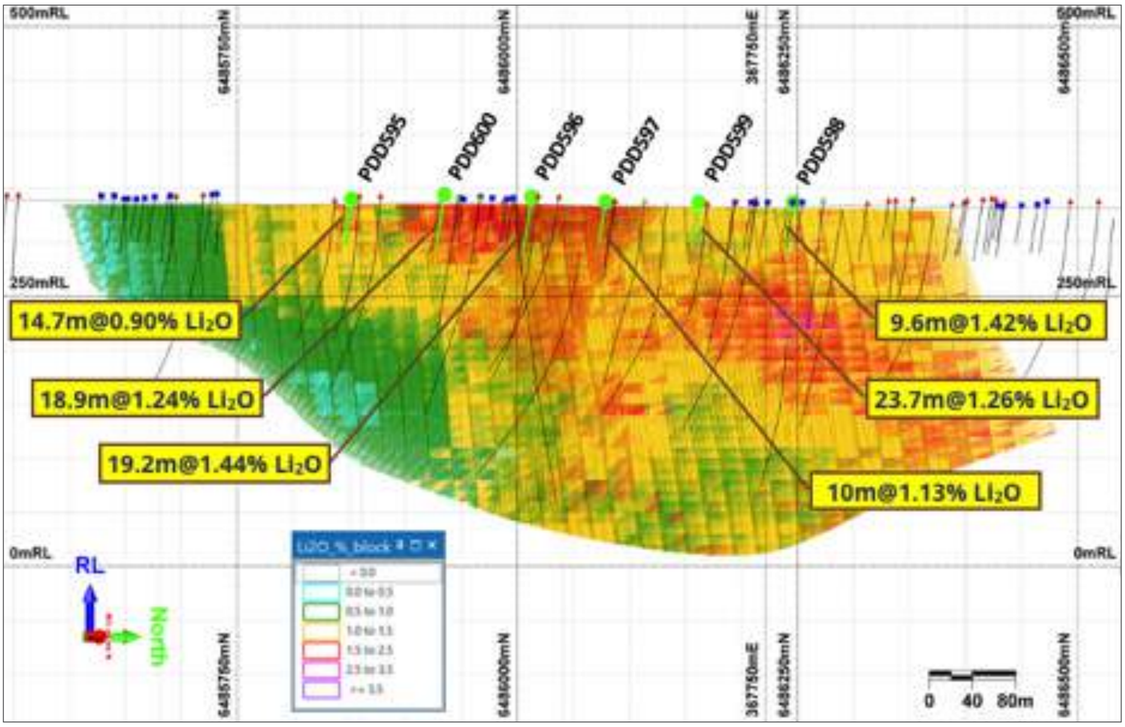



***Figure 3.***
*Long-section of the Cade deposit with previous drilling (thin black traces), completed HQ3 diamond drilling (thick green traces) with lithium intersections and Lithium (Li2O) Mineral Resource Estimate (coloured by grade as per the legend).*


***Figure 4.***
*Example of drill core taken from the upper zone of the Cade Deposit illustrating the relatively homogenous mineralised pegmatite and some weathering on fractured sections (Hole ID PDD598).*

# OPERATIONAL AND FINANCIAL REVIEW

## LITHIUM METALLURGY

In December 2019 Essential first engaged Primero Group Limited (ASX:PGX) to design and conduct an independent Scoping Study level metallurgical test work programme on two composite samples from five drill holes from the Cade deposit intended to represent the mean grade and lithology of the deposit. Intersections from the five holes were previously reported as follows (refer ASX announcement dated 4 February 2020):

- 31.6m @ 1.31% Li2O from 72 metres (PDRCD292)
- 27.4m @ 1.38% Li2O from 131 metres (PDRCD294)
- 27.2m @ 1.46% Li2O from 209 metres including 11m @ 1.79% Li2O (PDRCD295)
- 22.2m @ 1.72% Li2O from 128 metres (PDRCD318)
- 16.5m @ 0.86% Li2O from 166 metres (PDRCD293)

Under the DMS pilot test stage, a concentrate of 5.7% Li2O was achieved. The Secondary DMS floats were then composited with -0.85mm material and used as feed to flotation test work, containing an assayed grade of 1.67% Li2O.

The flotation test work based on the DMS feed included a series of tests with each one preceded by grinding the feed to P80 150µm and de-sliming via screen or cyclone at a cut size of 20 µm before performing the batch flotation tests.

| Concentrate | Grade (% $Li_2O$) | Grade (% $Fe_2O_3$) | Global Recovery (%$Li_2O$) |
|---|---|---|---|
| T12 Flot Con & DMS Con | 5.66 | 1.3 | 82% |
| T15 Flot Con & DMS Con | 5.65 | 0.7 | 74% |

***TABLE 3.***

*Table 2: Concentrate Summary*

Future test work should result in improvements to grades and recoveries, and the work completed to date shows that there is the potential to produce a marketable concentrate.

In June, metallurgical test work commenced on three composite samples selected from the March Quarter drill programme, representing the near-surface upper zones of the Cade and Davy deposits respectively and the fresh rock zone of the Davy deposit. This test work programme will also be conducted by Nagrom Laboratories and is expected to be completed in September 2022.

# OPERATIONAL AND FINANCIAL REVIEW

## STEPS TOWARDS BEING DEVELOPMENT READY

During the December 2022 quarter, the Company expects to be able to complete an updated lithium Mineral Resource Estimate, which together with the metallurgical test work results, will underpin a Scoping Study. This in turn is expected to pave the way for a Feasibility Study commencing in early 2023.

Steps are being taken to transition the Dome North Resource area to a 'development ready' status. These steps include:

- A flora and fauna study was completed with no material issues identified;
- A hydrology study has been completed and multiple potential water sources have been identified;
- Additional metallurgical test work, focussed on the upper zone of Cade deposit, and on the Davy deposit, is planned to be completed by the end of September to complement previous successful test work on Cade;
- A mining agreement is in place with NNTAC, the representative body of the Ngadju people, the custodians of the land on which the project is located; and
- A mining lease application was lodged in August 2022.

The Dome North lithium Mineral Resource remains the only Australian lithium Mineral Resource not yet subject to an offtake commitment.

The Company intends to commence discussions with various local and international lithium participants interested in off-take and/or investment at the appropriate time.

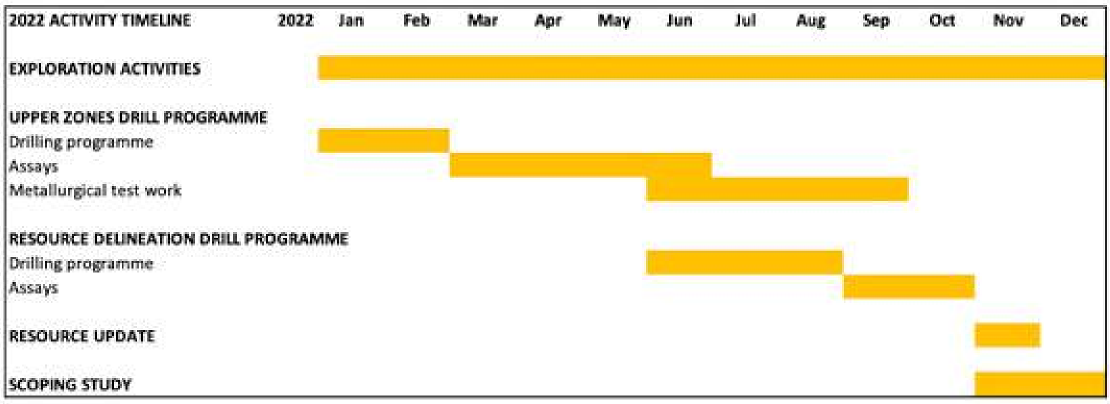



***Figure 5.***
*2022 Pioneer Dome Activity Timeline*

## WORK SUBSEQUENT TO REPORTING PERIOD

Subsequent to the end of the current reporting period, Essential reported preliminary observations from a drill programme at Dome North, targeting depth extensions at the Cade and Davy deposits, as well as testing for northern and southern strike extensions at Davy (Refer ASX announcement dated 12 August 2022).

The reported programme consisted of 17 drill holes drilled at the Cade and Davy deposits. Drilling was a combination of Reverse Circulation (RC) drilling, where the RC drill rig was able to reach the target area, and RC pre-collars followed by diamond tails (RCD) for the deeper holes.

Pegmatite was intersected in each of the seven deeper holes at Cade, with visual spodumene observed in three holes (PDRCD704, PDRCD706 and PDRCD708). For the other holes, spodumene was not readily identifiable. Assays will be required to determine lithium content, as fine grained spodumene could be present. The presence of mica (muscovite) in the holes tends to suggest that they intersected the lower periphery zone to the spodumene mineralisation within the Cade pegmatite.

At Davy, each of the six holes drilled to test the northern extent of the Davy deposit intersected pegmatites with visual spodumene recognised in five of the holes. The three holes drilled down dip of the Davy deposit intersected pegmatite with no visible spodumene. The two holes drilled in the southern extent of the Davy deposit did not intersect pegmatite.

Assays for this drill programme are expected to be received by November.

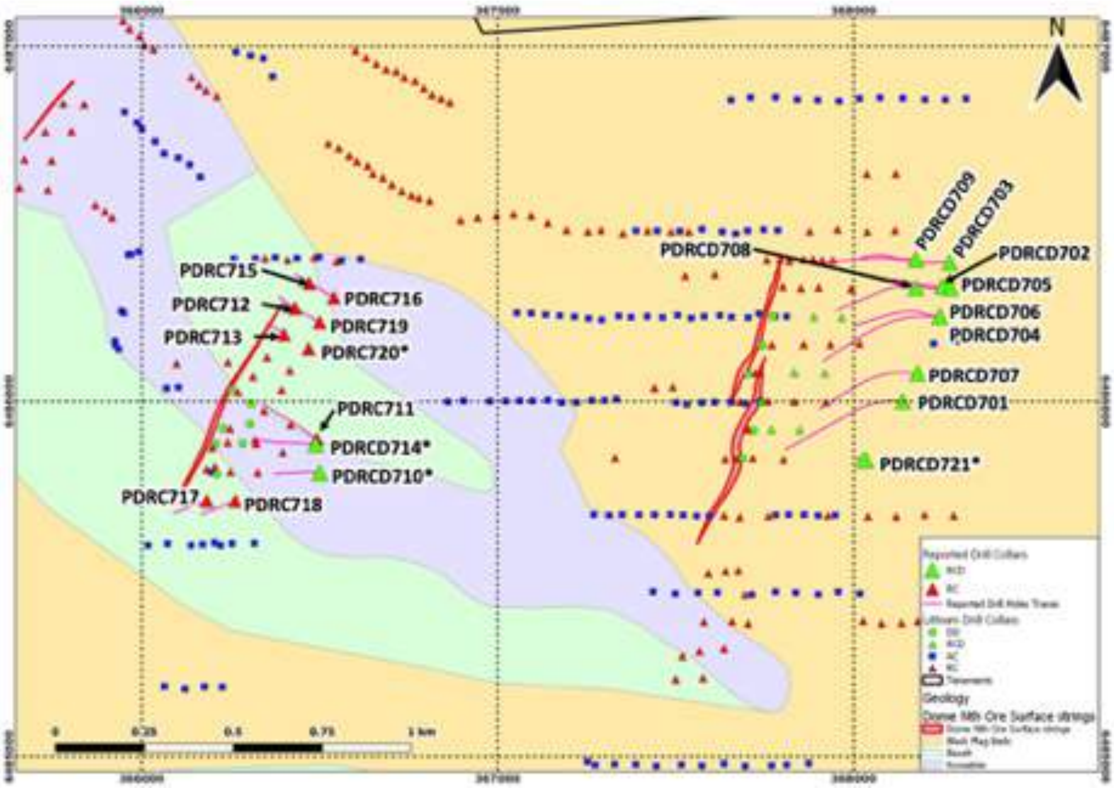



***Figure 6.***
*Drilling to date for the North Dome programme on top of the interpreted regional geology.*

# OPERATIONAL AND FINANCIAL REVIEW

# JUGLAH DOME GOLD PROJECT (ESS: 100%)

## LOCATION, TENURE AND INFRASTRUCTURE

Juglah Dome comprises of a single ~50 km$^2$ tenement highly prospective for gold mineralisation located ~60 km ESE of Kalgoorlie (Figure 7) and is readily accessible from the Mt Monger haul road and the Trans-Australian Railway service road. Exploration by previous owners identified multiple gold targets using soil geochemistry and drilling. The Project lies in a similar geological setting to that which hosts the Majestic and Imperial Deposits located 10km to the north-west and the Daisy Complex to the west, which forms part of Silver Lake Resources Limited's Mt Monger Operations (Figure 6).

## GEOLOGY AND MINERALISATION

The project is located within the Kurnalpi Terrane and includes a lower sequence of chert, intermediate to felsic volcanics and volcaniclastics, overlain by basalts. The sequence has been folded and intruded by the Juglah Monzogranite, which forms the core of the NW-trending Bulong anticline, of which the project is at the southern end (Figure 7).

Mineralisation is largely related to NNW to NW trending shear zones, and also NNE-NE cross structures. It is also generally hosted within felsic porphyry dykes and felsic volcanics. The axis of the anticline is also a control on mineralisation, with the Moonbaker, John West and Axe Patch prospects occurring along this NW trend.

In June 2022 Essential announced the completion of a RC drill campaign carried out on wide spaced sections up to 240m apart to test along strike to the south of previous drilling conducted in 2020, which returned an intercept of 8m @ 2.18g/t Au from 34m (hole ID 20GDRC034) in the southern-most RC drill hole of that drill programme.

# OPERATIONAL AND **FINANCIAL REVIEW**

Initial assay results were returned from either three metre composite samples or one metre rig mounted cone splits (where visual proxies of gold mineralisation in the felsic porphyry units were observed). The one metre splits from anomalous three metre composites samples were submitted for further gold analysis.
The most significant gold intersections from this (March 2022) drilling included (refer ASX announcement dated 30 June 2022):

- 5m @ 1.08g/t Au from 35m (22GSRC002)
- 12m @ 0.95g/t Au from 30m (22GSRC013) – three metre composites
- 8m @ 1.49g/t Au from 75m including 1m @ 7.30g/t Au (22GSRC014)
- 3m @ 0.73g/t Au from 57m (22GSRC003)

Gold anomalism and felsic porphyry units were intersected on every drill line. Mineralisation generally occurs within the felsic porphyry units or at the sheared margins associated with feldspar-pyrite alteration and quartz veining. The strongest gold mineralisation was returned on the section 6,568,340N in holes 22GSRC013 and 22GSRC014 (Figure 7). The RC section spacing was 160m to the north and south of these holes with anomalous mineralisation intersected on the adjacent sections.

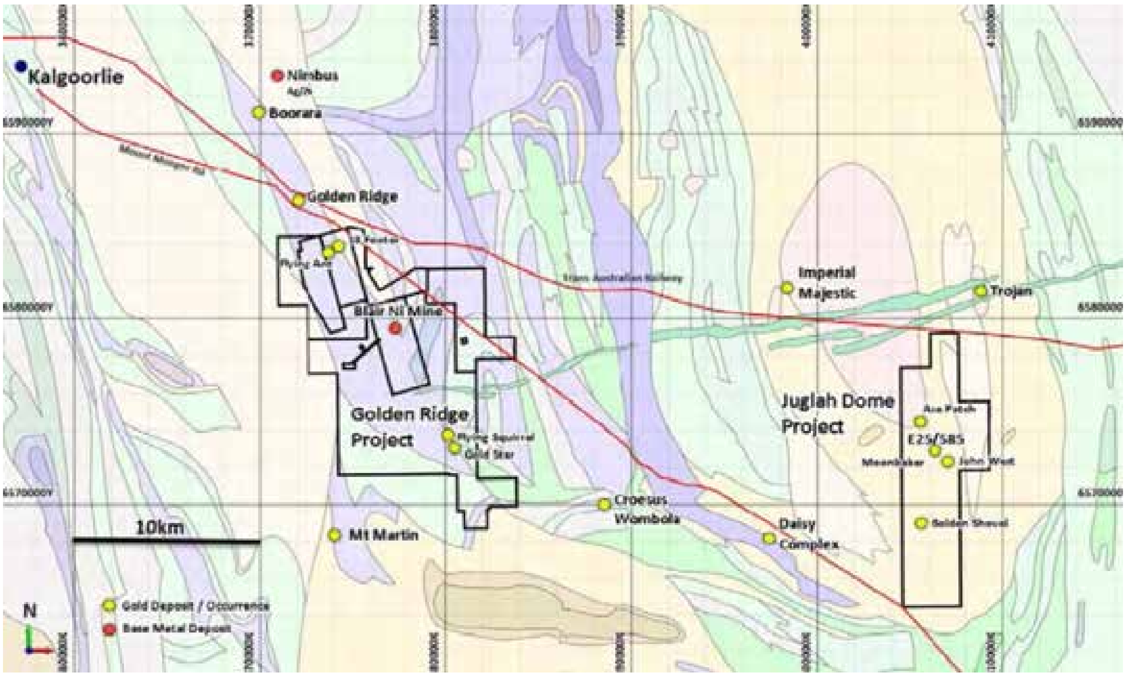




***Figure 7.***
*Juglah Dome and Golden Ridge projects showing tenements and geology.*

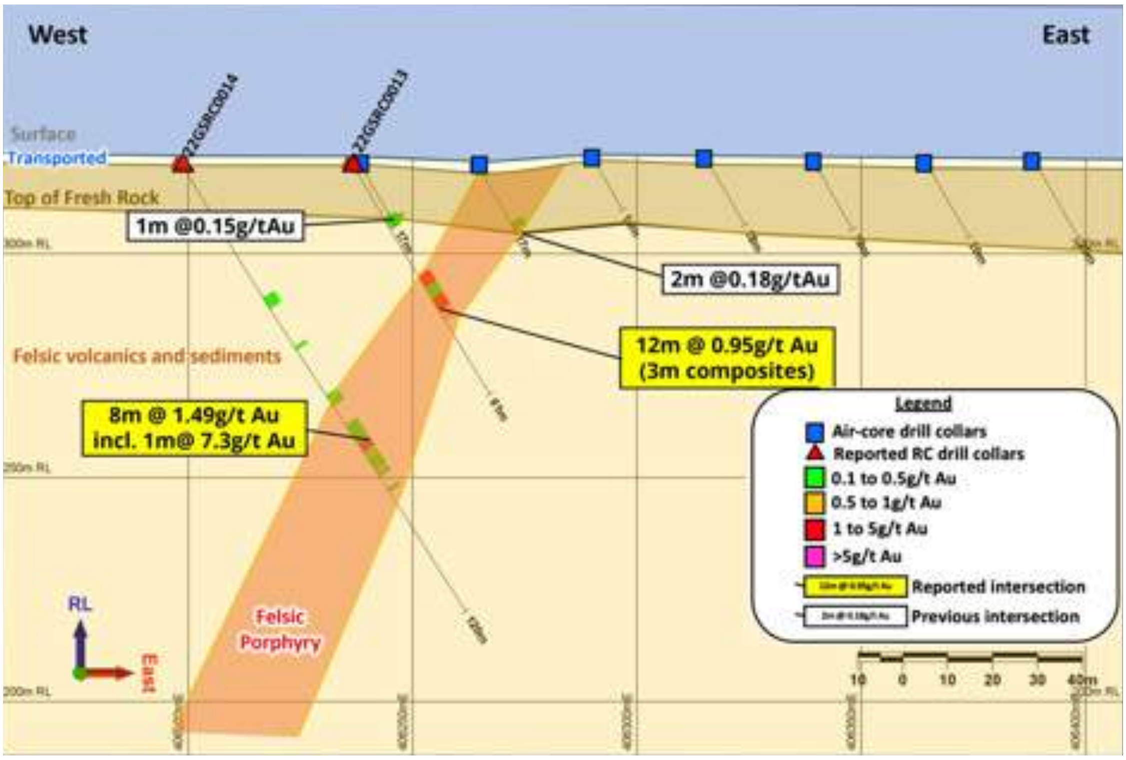



***Figure 8.***
*Cross section containing holes 22GSRC0013 and 22GSRC0014.*

# OPERATIONAL AND FINANCIAL REVIEW

# GOLDEN RIDGE GOLD PROJECT (ESS: 100%)

## LOCATION, TENURE AND INFRASTRUCTURE

The Golden Ridge Project is located 20km southeast of Kalgoorlie and is highly prospective for gold and nickel mineralisation. The project lies within the well-endowed Menzies-Boorara Shear Zone that hosts the New Boddington, Paddington, Boorara and Golden Ridge Deposits (the latter two are owned by Horizon Minerals Limited – ASX:HRZ). Exploration at the Project by previous owners had identified multiple highly prospective gold and nickel targets. Golden Ridge comprises four MLs, three ELs and one L for a total area of 145 km$^2$.

## GEOLOGY AND MINERALISATION

The Golden Ridge tenements straddle the Boorara Shear Zone ('BSZ') and the Mount Monger Fault. The BSZ is an elongate NNW trending zone, that extends from Menzies in the north to south of Golden Ridge, and hosts several gold deposits, including Paddington/Broad Arrow and Golden Ridge. The total in-situ resource at the 1985 commencement of mining at Paddington was 8.4 Mt @ 3.2 g/t Au for 860,000 oz of contained gold. The Paddington mill is still operating, treating material from other deposits in the region.

Horizon Minerals owns and operates the Boorara Gold Project immediately along strike to the NNW of the Golden Ridge tenements, with this project including the 448,000 oz Boorara deposit, with total project resources of 19.02 Mt @ 1.66 g/t gold for 1.02 Moz of contained gold.

The gold occurrences in the Golden Ridge project are largely concentrated in the interpreted younger volcanic and sedimentary units in the northern part of the tenement package and are localised between the Mount Monger Fault and Boorora Shear Zone.

# OPERATIONAL AND **FINANCIAL REVIEW**

In July 2021 Essential announced that it had received all assays from a 92-hole/6,080m Air-Core drill programme across three prospects (Skandia, Maximus and AC75). The most significant results from this drilling are summarised below (refer ASX release dated 8 July 2021):

Skandia prospect (25 AC holes) results included:

- 8m @ 1.01 g/t Au from 96m including 3m @ 2.45g/t Au (hole GRA0454); and
- 12m @ 0.50 g/t Au from 60m (hole GRA0388)

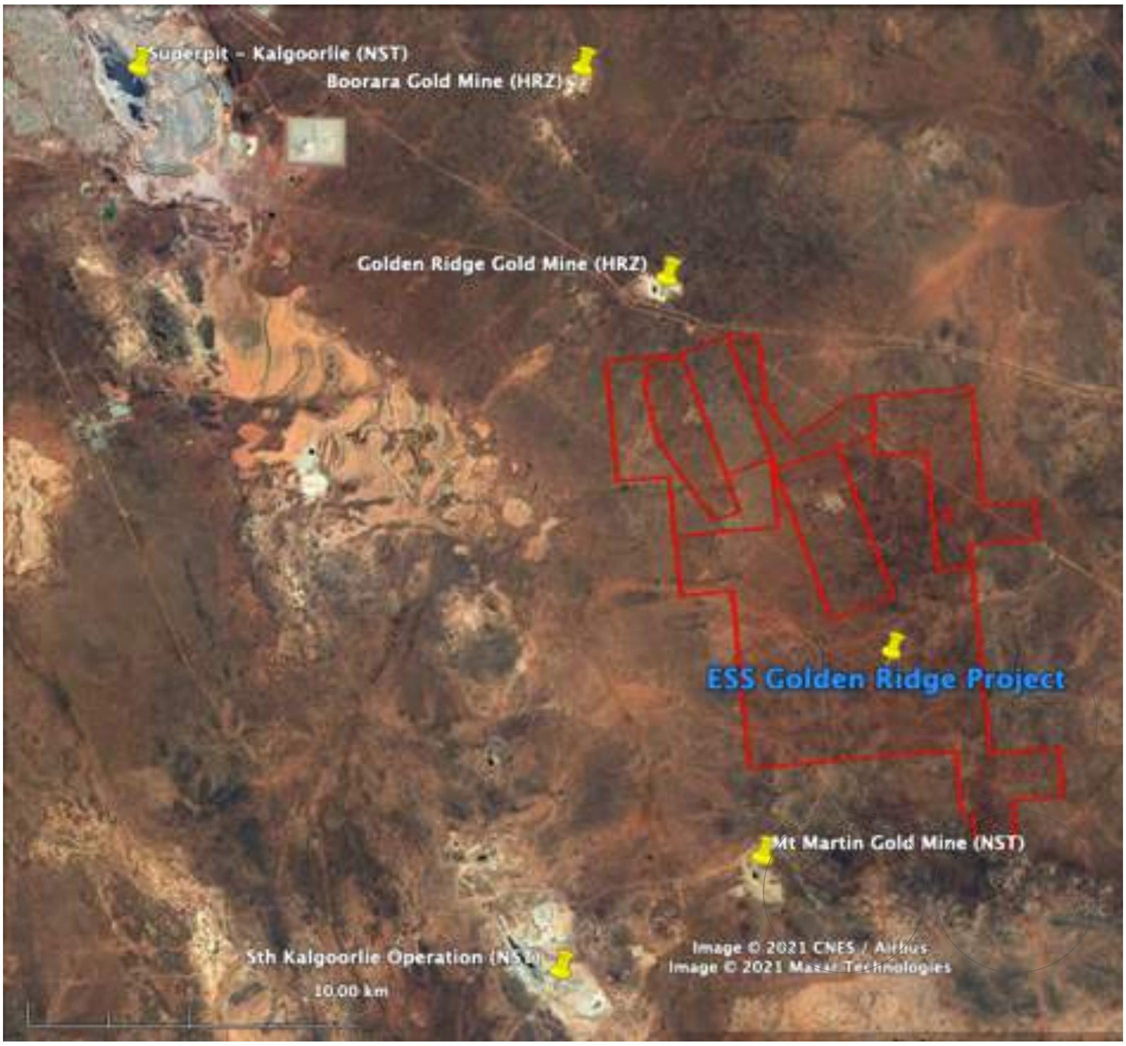



***Figure 9.***
*Location of the Golden Ridge Gold Project.*

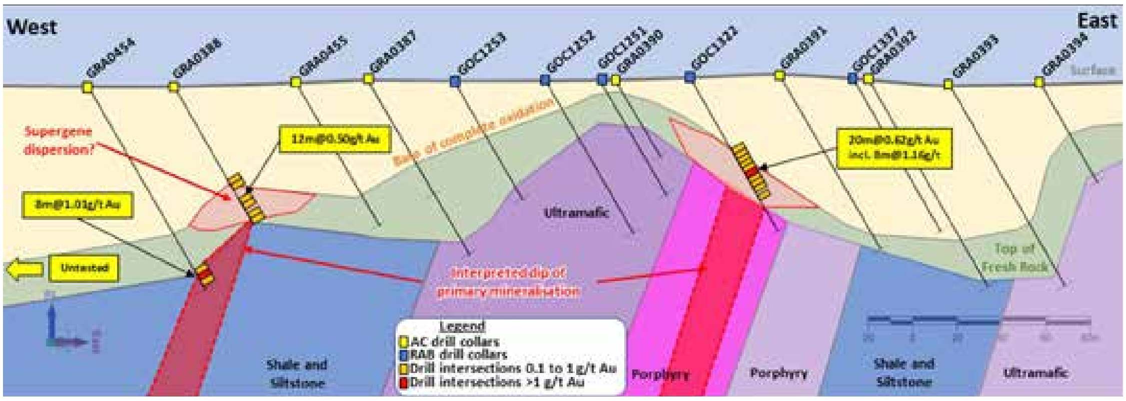



***Figure 10.***
*Cross-section through the middle line of Skandia AC drilling with the interpreted mineralised primary structures, supergene dispersion and bedrock lithologies. Note: west of section is prospective untested sediment.*

Results from the drilling programme are encouraging and suggest potential for significant gold mineralisation, especially to the west and along the interpreted strike of mineralisation intersected in GRA0454. This area is 3km south and along strike of the Golden Ridge Gold Deposit (ASX:HRZ) with a large coincident >20ppb Au soil anomaly with peak values to 174ppb Au.

Maximus prospect (26 AC holes) results included:

- 3m @ 3.0 g/t Au from 30m including 1m @ 6.07g/t Au (hole GRA0375);
- 5m @ 0.75 g/t Au from 57m (hole GRA0369); and
- 3m @ 0.89g/t Au from 24m and 6m @ 0.17g/t Au from 33m (hole GRA0368)

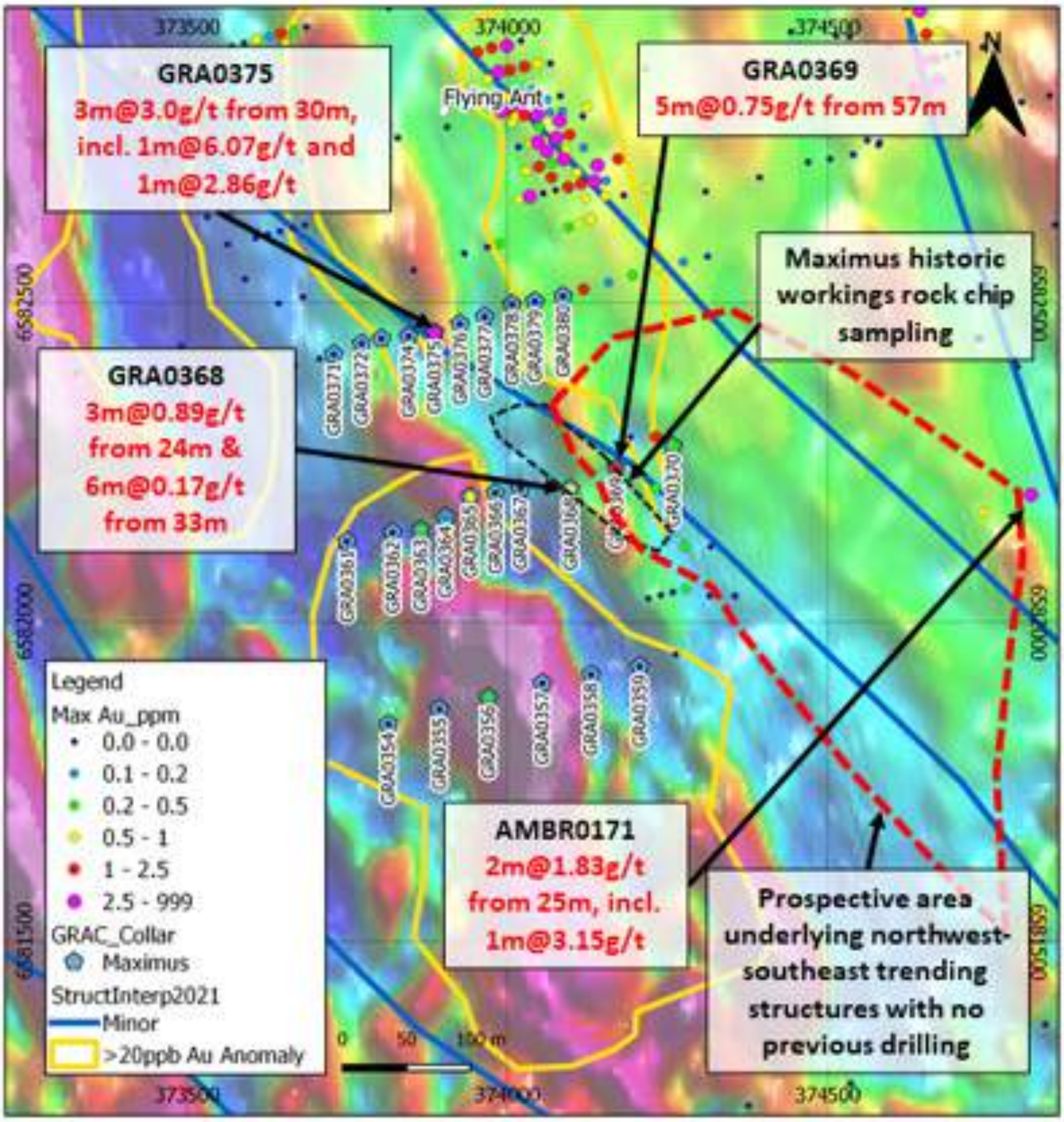



***Figure 11.***
*Location of Maximus AC drilling (blue pentagons), maximum Au (ppm) from drilling (coloured as per the legend) and area of >20ppb Au-in-soil anomalism (yellow polygon), prospective area to the northeast of AC drilling (red dashed shape), interpreted northwest trending structures (blue lines) and area of Maximus workings (black dashed outline).*

The anomalous Au zones intersected in the drilling correlate with intervals of massive or brecciated quartz veining and are hosted within siltstone, ultramafic or ferruginous upper saprolite units. An interpreted north-west/south-east trending structure is coincident with anomalous drill intercepts with no previous drilling for more than 1km along strike of this structure to the south-east.

AC75 prospect (41 AC holes) results included:

- 12m @ 0.49 g/t Au from 51m including 3m @ 1.01 g/t Au (hole GRA0415); and
- 9m @ 0.26 g/t Au from 54m (hole GRA0451)

Drilling intersected basalt and ultramafic lithologies with minor bands of chert and shale. The identified mineralisation correlates with a roughly north-south oriented band of weakly brecciated shale and chert units that are interpreted as narrow interflow sediments. Further interpretive work is required to determine the future exploration activities, if warranted.

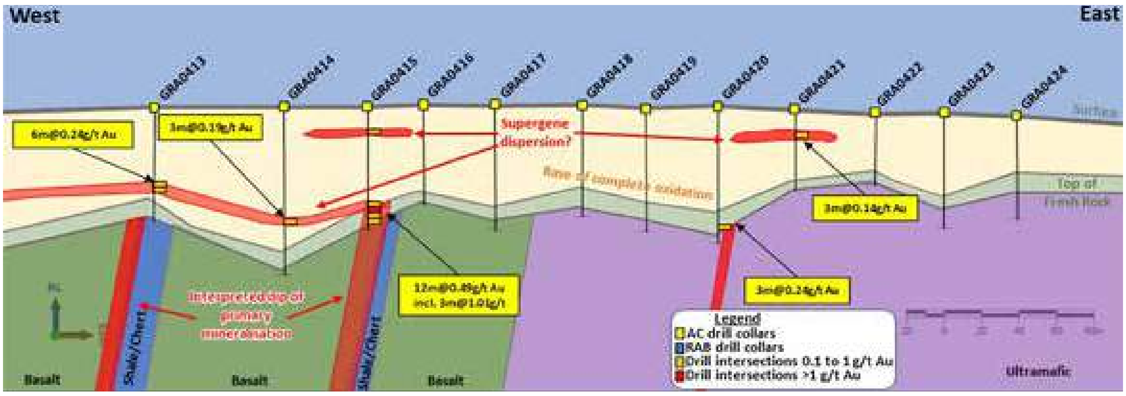



***Figure 12.***
*Cross-section through the southern line of AC75 AC drilling with the interpreted mineralised primary structures, supergene dispersion and bedrock lithologies.*

# JOINT VENTURE INTERESTS

**GOLD:** The Acra Project is near Kalgoorlie. Northern Star Resources Limited ('Northern Star') (ASX:NST) has earned a 75% Project Interest and continues to fully fund exploration programmes until approval of a Mining Proposal by DMIRS is received, with Essential Metals holding a 25% interest.

**GOLD:** The Kangan Project is in the West Pilbara and is part of a joint venture with Novo Resources Corp ('Novo') (TSX.NVO), who is funding 100% of the gold exploration programmes until a decision to mine is made, with Essential Metals holding a 30% interest.

**GOLD:** The Balagundi Project is subject to a farmin & JV agreement where Black Cat Syndicate Limited ('Black Cat') (ASX:BC8) is earning a 75% interest in the Project located at Bulong, near Kalgoorlie. Black Cat will then fully fund the gold exploration programmes until a decision to mine is made, with Essential Metals retaining a 25% interest.

**GOLD:** The Company holds a 25% free-carried interest (20% for nickel rights) in the Larkinville Project near Kambalda, WA, with Maximus Resources Ltd ('Maximus') (ASX:MXR).

**NICKEL:** The nickel mineral rights on the Blair-Golden Ridge Project, which includes the suspended Blair Nickel Sulphide Mine, are subject to a farmin/joint venture with Australian Nickel Company Limited ('ANCO'), (aka: Crest Investment Group) a nickel exploration specialist which is earning up to a 75% interest. The Company will retain a 25% free-carried interest up to a decision to mine.

**NICKEL:** The Company holds a 20% free-carried interest (nickel only) in the Wattle Dam Project near Kambalda, WA, with Maximus Resources Ltd (ASX:MXR).

# OPERATIONAL AND FINANCIAL REVIEW

# CORPORATE

## COVID-19

Management continued to monitor the impact of Government restrictions in response to the COVID-19 pandemic throughout the current reporting period and has taken measures to ensure minimal disruption to the Company's operations and employees. With the exception of industry-wide delays with respect to the availability of drill rigs and drilling personnel and time taken for laboratories to complete analysis drilling and other sample assays, Essential did not suffer any major operational delays during the current reporting period. Essential will continue to monitor the situation and government advice around the pandemic and will act in accordance with this advice.

## EQUITY INSTRUMENTS

During the current reporting period the Company issued 45,670,125 ordinary shares for gross proceeds before share issue costs of $5,965,000 comprising:

- 40,000,000 ordinary shares issued under a Placement at $0.125 per share;
- 3,889,569 ordinary shares upon exercise of 3,889,569 listed ESSO share options exercisable at $0.15 on or before 30 November 2022;
- 180,556 ordinary shares upon exercise of 180,556 unlisted share options exercisable at $0.45 on or before 30 November 2022;
- 1,500,000 ordinary shares upon exercise of 1,500,000 unlisted broker options exercisable at $0.20 on or before 10 August 2023; and
- 100,000 ordinary shares upon exercise of 100,000 unlisted performance rights.

## DISPOSAL OF SUBSIDIARY

On 4 January 2022 the Company completed the sale of wholly owned Canadian subsidiary Pioneer Canada Lithium Corp. to a subsidiary of Critical Resources Limited (ASX:CRR) for the following consideration:

- $750,000 cash payment ($375,000 withheld pending a Canadian foriegn income tax assessment).
- 34,000,000 shares in Critical Resources Limited.
- Milestone payments:
  - $750,000 cash payment following the definition of a Mineral Resource Estimate (as defined in the JORC Code 2012) for the Mavis Lake Lithium Project with a volume of not less than 5.0 million tonnes containing not less than 50,000 tonnes of Li2O using a cut-off grade of not less than 0.4% Li2O.
  - $750,000 cash payment following the definition of a Mineral Resource Estimate (as defined in the JORC Code 2012) for the Mavis Lake Lithium Project with a volume of not less than 10.0 million tonnes containing not less than 100,000 tonnes of Li2O using a cut-off grade of not less than 0.4% Li2O.

## LISTED INVESTMENTS

During the current reporting period the Company sold its entire 34 million shareholding in Critical Resources Limited (ASX:CRR) for gross proceeds before costs of $2,809,000 at an average sale price per share of $0.08.

During the current reporting period the Company sold its entire 785,695 shareholding in Medallion Metals Limited (ASX:MM8) for gross proceeds before costs of $161,000 at an average sale price per share of $0.20.

At the end of the current reporting period the Company held 1.25 million shares in International Lithium Corp (TSXV: ILC.V) valued at $110,000 ($0.09 per share).

## REGISTERED OFFICE AND PRINCIPAL PLACE OF BUSINESS

On 1 July 2022 the Company announced that it had changed its registered office and principal place of business to Level 3, 1292 Hay Street, West Perth, Western Australia 6005.

# ENVIRONMENTAL, SOCIAL & GOVERNANCE (ESG)

## ESG AT ESSENTIAL METALS

**This is the Company's inaugural Environmental, Social and Governance ("ESG") overview highlighting the relevant sustainability management approach and initiatives in this financial year. Essential Metals is focussed on finding and producing of metals essential for a sustainable, low-carbon future. The Company is committed to protecting and respecting the environment and local communities within which it operates and looks forward to enhancing its positive impact in these areas.**

**Since Essential Metals is currently at the exploration stage, the World Economic Forum – Stakeholder Capitalism Index is considered to be the preferred reporting framework. The Company is committed to align itself with the Global Reporting Initiative ("GRI") reporting framework when the construction stage begins.**

# ENVIRONMENTAL, SOCIAL & GOVERNANCE (ESG)

## ESG STAGED APPROACH

### STAGE 1

- Finalise ESG reporting framework
- Allocate resources, roles and responsibilities for ESG activities
- Define material topics
- Commence stakeholder engagement program
- Set up ESG data collection system
- Prepare inaugural ESG report

### STAGE 2

- Outline Essential Metals ESG Strategy
- Expand data scope
- Set goals for material topics
- Conduct ESG policies and procedures gap analysis
- Commence an ESG Discovery Process for the ESS Board & Management to define opportunities for value creation and risks to manage

### STAGE 3

- Monitor, measure and manage progress on ESG goals
- Begin adoption of Taskforce for Climate Related Disclosures ('TCFD') reporting recommendations
- Review ESG opportunities and risks throughout our wider value-chain

# ENVIRONMENTAL, SOCIAL & GOVERNANCE (ESG)

## STAKEHOLDER ENGAGEMENT AND MATERIALITY ASSESSMENT

Essential Metals believes that ongoing and effective engagement with its stakeholders is important for the Company to meet expectations in ESG performance and strategic development. In the current reporting period, Essential Metals commenced a materiality assessment with the Company's internal and external stakeholders to guide its sustainability efforts and reporting. The materiality assessment includes:

## IDENTIFICATION

- Identification and development of a list of ESG issues that are relevant to the Company's business
- Internal and external stakeholders to complete a survey to rate the importance of sustainability issues to Essential Metals.

## PRIORITISATION

- Development of a ranked list of material topics based on the survey results.

## VALIDATION

- Determination of a list of material topics for disclosure as an exploration stage company.

## MATERIAL TOPICS

| Topics | Materiality Level |
|---|---|
| **Environment** | |
| Pollution prevention | High |
| Biodiversity and rehabilitation | High |
| Water management and use | Medium |
| Climate risks and opportunities | Low |
| Energy and emissions | Low |
| Waste management | Low |
| **Social** | |
| Safety | High |
| Employee health and wellbeing | High |
| Employee attraction and retention | High |
| Diversity and inclusion | High |
| Employee development | Medium |
| Community engagement | Low |
| **Governance** | |
| Corporate governance | High |
| Business ethics | High |
| Economic performance | High |
| Human rights and modern slavery | Medium |
| Innovation | Medium |
| Supply chain management | Low |

# ENVIRONMENTAL, SOCIAL & GOVERNANCE (ESG)

## ENVIRONMENT

Essential Metals is committed to environmental sustainability through the diligent management of the activities it undertakes, including the identification and mitigation of risks to the natural environment. As stated in our Environmental Policy, as part of our Employee Manual, the Company will ensure that appropriate environmental management controls are identified and implemented during the construction, operational, closure and post-closure stages of the projects.

Protecting biodiversity and supporting rehabilitation are integral to responsible mining across the life of a mining operation. In the current reporting period, Essential Metals completed a flora and fauna survey over the Dome North area. Desktop review and field surveys were conducted within the survey area that is approximately 2,682 ha in extent and is located approximately 52 km north of Norseman, Western Australia. Based on survey results, no threatened, priority or significant ecological communities were identified within the survey area.

Closure planning is an important part of the Company's business processes. The Western Australian Mining Act 1978 requires the development of mine closure plans to ensure mining operations are closed, decommissioned and rehabilitated in an ecologically sustainable manner. Following successful completion of the Sinclair Caesium Mine, Essential Metals has developed a Mine Closure Plan which will require the mine site to be rehabilitated in the future. The Mine Closure Plan adopted a risk-based management approach to prevent or minimise adverse long-term environmental impacts (i.e. surface water and groundwater pollution) arising from the project. The company will continue to optimise the environmental outcomes for the mine closure.

# ENVIRONMENTAL, SOCIAL & GOVERNANCE (ESG)

## SOCIAL

With our commitment to long-term sustainability, Essential Metals recognises the important roles played by its people, its customers and the communities in which it operates. This means retaining and attracting a values-aligned and highly competent workforce, ensuring workplace health and safety, strengthening customer relationships and contributing to local communities.

## EMPLOYMENT PRACTICES

Essential is dedicated to providing an inclusive and rewarding work environment that enables the Company's employees to grow and develop their potential. The Company's Employee Manual provides management with an approach to employment practices, working hours, rest periods, equal opportunity, diversity, antidiscrimination, and the provision of other benefits and welfare.
The Company's Corporate Code of Conduct, Diversity Policy and Employee Manual all provide a framework for decisions and actions in relation to the ethical conduct in employment.
These documents set out the principles covering the appropriate conduct in a variety of contexts and outlines the minimum standard of behaviour expected from employees.

## HEALTH & SAFETY

The health and safety of our employees and contractors is of paramount importance to Essential Metals. The Company's commitment to adopting safe work practices is outlined in our Corporate Governance Plan, Employee Manual, Emergency Response Management Plan and Occupational Health and Safety Management Plan. It is the responsibility of the Company's employees to act in accordance with the occupational health and safety legislation, regulations and policies and to use the safety equipment provided. Some of the actions the Company undertakes to maintain health and safety standards include:

- Provide safety information during onsite toolbox meetings and periodic staff meetings
- Perform pre-employment medical checks
- Established a COVID-19 & Other Infectious Disease Management Plan
- Conduct site safety inductions for new starters
- Deliver first aid training
- Supply protective clothing and safety equipment
- Provide travel insurance coverage

During the year the following injury rates were achieved across the Company's operations:

| Employees | Number / Rate * |
|---|---|
| Number of fatalities from work related injury | 0 |
| Total Lost time injuries frequency rate | 0 |
| Total recordable injuries | 0 |
| Total recordable injuries frequency rate | 0 |

*Rate calculation is per 1,000,000 hours of work.

# ENVIRONMENTAL, SOCIAL & GOVERNANCE (ESG)

## GOVERNANCE

Essential Metals is committed to operating ethically and with integrity in its business operations. By operating with a strong focus on corporate governance, Essential Metals will strengthen its sustainable long-term performance and value creation for all stakeholders.

## CORPORATE GOVERNANCE

The Board of Essential Metals (the 'Board') is responsible for overseeing its corporate governance policies and procedures. The Company's Corporate Governance Plan forms the basis of a comprehensive system of control and accountability for corporate governance. All Essential Metals' policies and practices are reported against the 4th Edition of the ASX Corporate Governance Council's Corporate Governance Principles and Recommendations. The Board has responsibility to oversee the sustainability governance by considering environmental and social impact to the Company's business, approving policies and monitoring compliance. As shown in the Company's Board Skills Matrix, the current mix of skills, experience and expertise of directors possess the desire to, and experience in, leading Essential Metals to be an industry leader in the areas of environmental, social and corporate governance.

For additional information on corporate governance, please refer to the Company's website at essmetals.com.au/corporate-governance.

## ANTI-CORRUPTION

Essential Metals is committed to conducting business activities fairly, honestly with integrity, and in compliance with all applicable laws, rules and regulations. The Company's Anti-bribery and Anti-corruption Policy sets out the responsibilities of our directors, employees, contractors and business associates in upholding the Company's commitment to preventing any form of bribery. This policy also provides information and guidance on how to recognise and deal with any potential corruption issues. Essential Metals provides anti-corruption training to its staff annually and during new staff induction.

## WHISTLEBLOWER PROTECTION

Essential Metals encourages and supports its employees to speak up safely and securely if they become aware of illegal or improper business conduct. The Company's Whistleblower Protection Policy provides information and guidance on how to report such conduct, how reports will be handled and investigated in a timely manner and the support and protections available if a report is made. The policy also sets out responsibilities of the Company's employees, suppliers and associates in upholding the Company's commitment to reporting any illegal, unethical or improper conduct.

# ENVIRONMENTAL, SOCIAL & GOVERNANCE (ESG)

## WORLD ECONOMIC FORUM – STAKEHOLDER CAPITALISM INDEX

| WEF key data/question | Current status | Start date target | Disclosure target |
|---|---|---|---|
| The company's stated purpose, as the expression of the means by which a business proposes solutions to economic, environmental and social issues. Corporate purpose should create value for all stakeholders, including shareholders. | Focused on finding and producing metals essential for a sustainable, low-carbon future. Our strategy is to become a new force in the lithium supply chain. | Completed | Disclosed FY22 |
| Composition of the highest governance body and its committees by: competencies relating to economic, environmental and social topics; executive or non-executive; independence; tenure on the governance body; number of each individual's other significant positions and commitments, and the nature of the commitments; gender; membership of under-represented social groups; stakeholder representation. | See Board Skill Matrix and diversity policy of the Essential Metals Corporate Governance Plan. | Completed | Disclosed FY22 |
| A list of the topics that are material to key stakeholders and the company, how the topics were identified and how the stakeholders were engaged. | Disclosed in the ESG at Essential Metals section of this Annual Report. | Completed | Disclosed FY22 |
| Total percentage of governance body members, employees and business partners who have received training on the organisation's anti-corruption policies and procedures, broken down by region. a) Total number and nature of incidents of corruption confirmed during the current year, but related to previous years; and b) Total number and nature of incidents of corruption. | Training on Anti-corruption & Bribery Policy is provided to all senior managers and other relevant personnel by the Board each year. Essential Metals has not had any incidents of corruption in the current reporting period or in any prior reporting periods. | Completed | Disclosed FY22 |
| Discussion of initiatives and stakeholder engagement to improve the broader operating environment and culture, in order to combat corruption. | Operating in Australian jurisdiction there is a low risk of corruption. The Essential Metals Anti-Bribery and Corruption policy has guidance on ethical and lawful behaviour. | Completed | Disclosed FY22 |
| A description of internal and external mechanisms for seeking advice about ethical and lawful behaviour and organisational integrity. | The Essential Metals Anti-Bribery and Corruption policy has guidance on ethical and lawful behaviour. | Completed | Disclosed FY22 |
| A description of internal and external mechanisms for reporting concerns about unethical or unlawful behaviour and lack of organisational integrity. | The Company's Whistleblower policy stipulates mechanisms for reporting concerns about unethical or unlawful behaviour and lack of organisational integrity. | Completed | Disclosed FY22 |
| A description of principal material risks and opportunities facing the company specifically (as opposed to generic sector risks) | Risks are outlined in this Annual Report. | Completed | Disclosed FY22 |
| A description of the company appetite in respect of these risks, how these risks and opportunities have moved over time and the response to those changes. | Risks are outlined in this Annual Report. | Completed | Disclosed FY22 |

## WORLD ECONOMIC FORUM – STAKEHOLDER CAPITALISM INDEX

| WEF key data/question | Current status | Start date target | Disclosure target |
|---|---|---|---|
| For all relevant greenhouse gases (e.g. carbon dioxide, methane, nitrous oxide, F-gases etc.), report in tCO2e GHG Protocol Scope 1 and Scope 2 emissions. | Emissions are at an immaterial level until development and construction begins. | When construction begins | When construction begins |
| Fully implement the recommendations of the TCFD. If necessary, disclose a timeline of at most three years for full implementation. | Emissions are at an immaterial level until development and construction begins.<br><br>Outstanding disclosures: Implementation or roadmap towards the recommendations of the TCFD. | When construction begins | When construction begins |
| Report the number and area (in hectares) of sites owned, leased or managed in or adjacent to protected areas and/or key biodiversity areas ('KBA'). | No projects are owned, leased or managed in or adjacent to protected areas and/or KBA. | Completed | Disclosed FY22 |
| Megalitres of water withdrawn, megalitres of water consumed and the percentage of each in regions with high or extremely high baseline water stress, according to WRI Aqueduct water risk atlas tool. | Water usage is at an immaterial level until development and construction begins. | When construction begins | When construction begins |
| Percentage of employees per employee category, by age group, gender and other indicators of diversity (e.g. ethnicity). | Essential Metals currently has seven employees. Diversity will become material when development and construction begins. | When construction begins | When construction begins |
| Ratio of the basic salary and remuneration for each employee category by significant locations of operation for priority areas of equality: women to men, minor to major ethnic groups, and other relevant equality areas. | Essential Metals currently has seven employees. Priority areas of equality will become material when development and construction begins. | When construction begins | When construction begins |
| Ratios of standard entry level wage by gender compared to local minimum wage. | Essential Metals currently has seven employees. Gender wage ratios will become material when development and construction begins. | When construction begins | When construction begins |
| Ratio of the annual total compensation of the CEO to the median of the annual total compensation of all its employees, except the CEO. | Essential Metals currently has seven employees. The CEO to employee remuneration ratio will become material when development and construction begins. | When construction begins | When construction begins |
| An explanation of the operations and suppliers considered to have significant risk for incidents of child labour, forced or compulsory labour. | As Essential Metals only operates in Australia and uses local suppliers, there is a very low risk of incidents of child labour, forced or compulsory labour. | When construction begins | When construction begins |

## WORLD ECONOMIC FORUM – STAKEHOLDER CAPITALISM INDEX

| WEF key data/question | Current status | Start date target | Disclosure target |
|---|---|---|---|
| The number and rate of fatalities as a result of work-related injury; high-consequence work-related injuries (excluding fatalities); recordable work-related injuries; main types of work-related injury; and the number of hours worked. | There were zero fatalities, injuries, incidents or accidents in the current reporting period. | Completed | Disclosed FY22 |
| An explanation of how the organisation facilitates workers' access to non-occupational medical and healthcare services, and the scope of access provided for employees and workers. | Essential Metals does not currently facilitate workers' access to non-occupational medical and healthcare services. | Completed | Disclosed FY22 |
| Average hours of training per person that the organisation's employees have undertaken during the reporting period, by gender and employee category (total number of hours of training provided to employees divided by the number of employees). | Essential Metals currently has seven employees. Training hours will become material when development and construction begins. | When construction begins | When construction begins |
| Average training and development expenditure per full time employee (total cost of training provided to employees divided by the number of employees). | Essential Metals currently has seven employees. Training expenditure will become material when development and construction begins. | When construction begins | When construction begins |
| Total number and rate of new employee hires during the reporting period, by age group, gender, other indicators of diversity and region. | Essential Metals currently has seven employees. New hire profiling will become material when development and construction begins. | When construction begins | When construction begins |
| Total number and rate of employee turnover during the reporting period, by age group, gender, other indicators of diversity and region. | Essential Metals currently has seven employees. Employee turnover will become material when development and construction begins. | When construction begins | When construction begins |
| Direct economic value generated and distributed ('EVG&D'), on an accruals basis, covering the basic components for the organisation's global operations. | To be disclosed in FY23. | FY23 | FY23 |
| Financial assistance received from the government: total monetary value of financial assistance received by the organisation from any government during the reporting period. | To be disclosed in FY23. | FY23 | FY23 |
| Total capital expenditures ('CapEx') minus depreciation, supported by narrative to describe the company's investment strategy | To be disclosed in FY23. | FY23 | FY23 |
| Share buybacks plus dividend payments, supported by narrative to describe the company's strategy for returns of capital to shareholders. | To be disclosed in FY23. | FY23 | FY23 |
| Total costs related to research and development. | To be disclosed in FY23. | FY23 | FY23 |
| The total global tax borne by the company. | To be disclosed in FY23. | FY23 | FY23 |

ESSENTIALMETALS

for a sustainable future

# DIRECTORS' REPORT

# DIRECTORS' REPORT

**Your directors present their report on Essential Metals Limited ('Company') and the entities it controlled ('Group') at the end of and during the year ended 30 June 2022.**

## DIRECTORS

The following persons were directors of Essential Metals Limited during the whole of the financial year and up to the date of this report unless otherwise stated.

## CURRENT DIRECTORS:

| Director | Details |
|---|---|
| **Craig McGown** | |
| **Qualifications** | B.Comm |
| **Position** | Independent Non-Executive Chairman |
| **Appointment date** | 13 June 2008 |
| **Resignation date** | N/A |
| **Length of service** | 14 years 3 months |
| **Biography** | Mr McGown is an investment banker with over 40 years of experience consulting to companies in Australia and internationally, particularly in the natural resources sector.<br>He holds a Bachelor of Commerce degree, was a Fellow of the Institute of Chartered Accountants and an Affiliate of the Financial Services Institute of Australasia.<br>Mr McGown is an executive director of the corporate advisory business New Holland Capital Pty Ltd and prior to that appointment was the chairman of DJ Carmichael Pty Limited.<br>Mr McGown also chairs the Harry Perkins Institute for Respiratory Health, a not-for-profit organisation focused on prevention and treatment of all forms of respiratory disease. Mr McGown brings to the Board a comprehensive knowledge of equity and debt markets and financing of resource projects. |
| **Current ASX listed directorships** | Sipa Resources Limited - 11 March 2015 to present<br>QMetco Limited (formerly Realm Resources Limited) - 31 May 2018 to present. |
| **Former ASX listed directorships in the last three years** | Venturex Resources Limited – 8 February 2021 to 9 June 2021 |
| **Timothy Spencer** | |
| **Qualifications** | B.Econ, CPA |
| **Position** | Managing Director |
| **Appointment date** | 31 March 2020 |
| **Resignation date** | N/A |
| **Length of service** | 2 year 6 months (as Managing Director) |
| **Biography** | Mr Spencer has over 25 years' experience in the resources sector and precious metals markets, working in various executive, accounting, treasury and finance roles including with three mining companies as an executive director and/or Chief Financial Officer and Company Secretary as well as with a large gold refining and trading enterprise. Mr Spencer joined the Company in October 2017, and prior to his appointment as Managing Director has served in the roles of Chief Executive Officer, Chief Financial Officer and Company Secretary. |
| **Current ASX listed directorships** | None |
| **Former ASX listed directorships in the last three years** | None |

# DIRECTORS' REPORT

| Director | Details |
|---|---|
| **Paul Payne** | |
| **Qualifications** | B App Sc (Geology) Grad Dip Min Ec |
| **Position** | Independent Non-Executive Director |
| **Appointment date** | 24 January 2020 |
| **Resignation date** | N/A |
| **Length of service** | 2 year 9 months |
| **Biography** | Mr Payne is a Fellow of the Australasian Institute of Mining and Metallurgy and an experienced geologist with a strong technical background as well as senior executive and board experience across a range of commodities in both Australia and internationally. Mr Payne's experience includes the role of founding Managing Director of Dacian Gold Limited where he was instrumental in the initial major gold discoveries at its Mount Morgans project. Mr Payne is currently non-executive director of a number of ASX listed resource companies and continues to provide expert technical services to the resources industry through his consultancy PayneGeo. |
| **Current ASX listed directorships** | Dreadnought Resources Limited – 21 December 2017 to present |
| **Former ASX listed directorships in the last three years** | Carnaby Resources Limited – 1 July 2016 to present |
| **Warren Hallam** | |
| **Qualifications** | B. App Sci (Metallurgy), MSc Min. Econ, GradDipBus |
| **Position** | Independent Non-Executive Director |
| **Appointment date** | 1 August 2020 |
| **Resignation date** | N/A |
| **Length of service** | 2 year 2 months |
| **Biography** | Mr Hallam is a metallurgist, a mineral economist and holds a Graduate Diploma in Business. He has over 35 years of technical and commercial experience across numerous commodities and businesses within the resources industry including with top-tier mining companies Western Mining Corporation, Metals X Limited, Westgold Resources Limited and is currently Chairman of ASX listed Kingfisher Mining Limited and Nico Resources Limited. Mr Hallam was a member of the senior leadership team at Metals X (both as Executive Director and Managing Director) and played a critical role in the development of Metals X as a leading global tin producer and top-10 gold producer. Mr Hallam also held a range of senior operation, strategic and business development roles with diversified ASX-100 resource company Western Mining Corporation. |
| **Current ASX listed directorships** | Kingfisher Mining Limited – 4 December 2018 to present<br>Nico Resources Limited – 29 April 2021 to present<br>Poseidon Nickel Limited – 1 June 2022 to present |
| **Former ASX listed directorships in the last three years** | Nelson Resources Limited – 1 February 2019 to 31 May 2022<br>Millennium Minerals Limited – 27 August 2019 to 7 September 2020 |

## DIRECTORS' SHAREHOLDINGS

As at the date of this report, the interests of the directors in the shares, options and performance rights of Essential Metals Limited were:

| Director | Ordinary Shares | Unlisted Share Options | Unlisted Performance Rights |
|---|---|---|---|
| C. McGown | 2,177,031 | 1,000,002 | - |
| T. Spencer | 1,289,411 | 1,500,000 | 1,750,463 |
| P. Payne | 930,569 | 600,000 | - |
| W. Hallam | 200,000 | 600,000 | - |

## REMUNERATION OF KEY MANAGEMENT PERSONNEL

Information about the remuneration of key management personnel is set out in the remuneration report section of this directors' report. The term 'key management personnel' refers to those persons having authority and responsibility for planning, directing and controlling the activities of the Group, directly or indirectly, including any director (whether executive or otherwise) of the Group.

## SHARE OPTIONS GRANTED TO DIRECTORS AND SENIOR MANAGEMENT

During and since the end of the financial year, the following options and performance rights were granted to the following directors and senior management of the Company and its controlled entities as part of their remuneration (on a post-share consolidation basis):

| Name | Unlisted performance rights | Issuing entity | Number of ordinary shares under option/ right |
|---|---|---|---|
| T. Spencer | 795,918 | Essential Metals Limited | 795,918 |
| C. Travaglini | 585,945 | Essential Metals Limited | 585,945 |
| A. Dunn | 520,839 | Essential Metals Limited | 520,839 |

## DIRECTORS' MEETINGS

The following table sets out the number of directors' meetings (including meetings of committees of directors) held during the financial year and the number of meetings attended by each director (while they were a director or committee member). Ten board meetings were held during the financial year. The remuneration and audit committees were suspended on 31 March 2020 with the full board of directors assuming the responsibilities of these committees from that date.

| Director | Board of Director's Meetings | |
|---|---|---|
| | Eligible | Attended |
| C McGown | 9 | 9 |
| T Spencer | 9 | 9 |
| P Payne | 9 | 9 |
| W Hallam | 9 | 9 |

## COMPANY SECRETARY

| Name | Details |
|---|---|
| **Carl Travaglini** | |
| **Qualifications** | CA, ACG (CS) |
| **Company Secretary Appointment date** | 31 March 2020 |
| **Resignation date** | N/A |
| **Length of service** | 2 year 6 months |
| **Biography** | Mr Travaglini was appointed Company Secretary on 31 March 2020 and also holds the position of Chief Financial Officer (appointed 25 February 2020). Mr Travaglini is a Chartered Accountant and Chartered Company Secretary. Before joining the Company Mr Travaglini worked for a number of WA based lithium and gold producers and explorers. Prior to that Mr Travaglini worked in assurance services for the mining resources sector and has more than 14 years' experience in financial reporting, corporate governance and risk management |

# DIRECTORS' **REPORT**

## PRINCIPAL ACTIVITIES

The principal activities of the Group during the current reporting period consisted of mineral exploration in Western Australia.

On 4 January 2022 the Company completed the sale of wholly owned Canadian subsidiary Pioneer Canada Lithium Corp. which held Essential's 51% interest in the Mavis Lake Lithium Project in Canada.

There were no other significant changes in the nature of the Group's principal activities during the financial year.

## RESULTS OF OPERATIONS

The consolidated net loss after income tax for the financial year was $1,407,000 (2021: $1,383,000 loss) which included project exploration write-offs/write-downs of $113,000 (2021: $477,000).

## DIVIDENDS

The directors do not recommend the payment of a dividend and no amount has been paid or declared by way of a dividend to the date of this report.

## REVIEW OF OPERATIONS AND ACTIVITIES

During the financial year the Group incurred a total of $3,188,000 (2021: $2,488,000) on exploration and evaluation expenditure. This includes $3,185,000 of exploration and evaluation expenditure capitalised to the Statement of Financial Position (2021: $2,388,000) and $3,000 exploration expensed to the Statement of Profit and Loss and Other Comprehensive Income (2021: $100,000) where the Group does not yet hold the rights to tenure. The Group's exploration and evaluation efforts were focussed during the reporting period on:

- The Pioneer Dome Lithium Project in Western Australia.
- The Blair-Golden Ridge Gold & Nickel Project in Western Australia.
- The Juglah Dome Gold Project located in Western Australia.

Joint venture partners Northern Star Resources Limited, Novo Resources Corp, Black Cat Syndicate Limited, Maximus Resources Limited and Australian Nickel Company Limited, were active in the Acra, Kangan, Balagundi, Wattle Dam-Larkinville and Blair-Golden Ridge joint ventures, respectively.

Exploration write-downs totalled $113,000 (2021: $477,000) which related to the write-down of capitalised costs on tenements surrendered and tenements in application during the year.

### CORPORATE AND FINANCIAL POSITION

As at 30 June 2022 the Group had cash reserves of $10,527,000 (2021: $5,466,000). The movement in cash is detailed in the Statement of Cash Flows on page 60 of this report.

### FUTURE DEVELOPMENTS, BUSINESS STRATEGIES AND PROSPECTS FOR FUTURE FINANCIAL YEARS

The Group is advancing the following projects:

(i) Exploration and pre-development activities at the Pioneer Dome Lithium Project located approximately 50km north of Norseman, WA;

(ii) Exploration activities at the Juglah Dome Project, prospective for gold and VHMS deposits, located approximately 60km east-southeast of Kalgoorlie, WA;

(iii) Exploration activities at the Blair - Golden Ridge Project (gold) located approximately 20km south-east of Kalgoorlie; and

The Group will seek to add value through exploration success, joint ventures and divestment and will continue to evaluate new mineral opportunities, with particular focus on advanced projects with the potential to deliver early cash flow opportunities.

### RISK MANAGEMENT

The Board is responsible for the oversight of the Group's risk management and control framework. Responsibility for control and risk management is delegated to the appropriate level of management with the Managing Director and Chief Financial Officer/Company Secretary having ultimate responsibility to the Board for the risk management and control framework.

Areas of significant business risk to the Group are highlighted in the Business Plan and the Corporate Risk Register presented to the Board for review by the Managing Director and Chief Financial Officer/ Company Secretary at each Board of Directors meeting.

Arrangements put in place by the Board to monitor risk management include monthly reporting to the Board in respect of operations and the financial position of the Group and ad hoc reporting as required by events which impact the Group's business. The Board has also established a "Whistle Blower" protocol to ensure all employees have, if required, access to such a process.

## CORPORATE GOVERNANCE

The Board is committed to achieving and demonstrating the highest standards of Corporate Governance. The Board is responsible to its shareholders for the performance of the Company and seeks to communicate extensively with shareholders. The Board believes that sound Corporate Governance practices will assist in the creation of shareholder wealth and provide accountability. In accordance with ASX Listing Rule 4.10.3, the Company has elected to disclose its Corporate Governance policies and its compliance with them on its website, rather than in the Annual Report. Accordingly, information about the Company's Corporate Governance practices is set out on the Company's website at https://www.essmetals.com.au/corporate-governance.

## EMPLOYEES

The Group employed five permanent employees as at 30 June 2022 (2021: five employees) and two casual employees (2021: two casual employees).

## ENVIRONMENTAL REGULATIONS

The Group holds various licences that regulate its activities in Australia. These licences include conditions and regulations with respect to the rehabilitation of areas disturbed during the course of its exploration activities. Rehabilitation costs relating to mining have been provided for in the accounts and are supported by an independent third-party assessment. So far as the Directors are aware there have been no material breaches of the Group's licence conditions and all exploration activities comply with relevant environmental regulations.

## CHANGES IN STATE OF AFFAIRS

The World Health Organisation declared the outbreak of a novel coronavirus (COVID-19) as a pandemic in March 2020. There is significant uncertainty around the breadth and duration of business disruptions related to COVID-19, which has resulted in significant volatility in Australian and international markets. While the Group is not able to estimate the length or severity of this pandemic, it currently anticipates only minimal ongoing disruptions to exploration activities in relation to its projects in Western Australia.

There was no other significant change in the state of affairs of the Group during the current reporting period.

## SUBSEQUENT EVENTS

Subsequent to the end of the current financial year but before the date of this report the Group issued 1,546,362 ordinary shares upon the exercise of ESSO listed options exercisable at $0.15 on or before 30 November 2022 for gross proceeds of $232,000 before share issue costs.

On 17 August 2022 the Group issued 430,985 unlisted performance rights to employees under the Group's shareholder approved Equity Incentive Plan for the 2022/23 financial year. The Managing Director is entitled to receive 219,718 unlisted performance rights on the same terms, subject to Shareholder approval.

The performance rights are subject to the following vesting criteria:

a) **Absolute TSR:** 50% of the granted performance rights will be subject to a vesting condition, whereby the Absolute Total Shareholder Return (Absolute TSR) must exceed 25%. Absolute TSR is measured as follows:

   'Absolute TSR' = [(Ending Price – Beginning Price) + Dividends]/Beginning Price.

   'Beginning Price' = Closing price on 30 June 2022.

   'Ending Price' = Closing price on 30 June 2025.

b) **Relative TSR:** 50% of the granted performance rights will be subject to a vesting condition based on Relative Total Shareholder Return (Relative TSR), whereby the Company's TSR must be greater than TSRs of 70% of the 10 peer group of companies over the performance period. To be clear, this vesting condition can only be met if the Company's TSR is positive.

   The Peer Group of companies is as follows:

| | | | |
|---|---|---|---|
| **GL1** | Global Lithium Limited | **MLS** | Metals Australia Limited |
| **GT1** | Green Technology Metals Limited | **EFE** | Eastern Resources Limited |
| **LPI** | Lithium Power International Limited | **OCN** | Oceana Lithium Limited |
| **RDT** | Red Dirt Metals Limited | **CHR** | Charger Metals Limited |
| **MRR** | Minrex Resources Limited | **AAJ** | Aruma Resources Limited |

Other than the above, there has not been any matter or circumstance occurring subsequent to the end of the financial year that has significantly affected, or may significantly affect, the operations of the Group, the results of those operations, or the state of affairs of the Group in future financial years.

## CORPORATE STRUCTURE

Essential Metals Limited (ACN 103 423 981) is a company limited by shares, was incorporated on 17 January 2003 and is domiciled in Australia. The Company has prepared this consolidated financial report including the entities it controlled during the financial year. The controlled entities were:

- Western Copper Pty Ltd (ACN 114 863 928) (Australia)
- Golden Ridge North Kambalda Pty Ltd (ACN 159 539 983) (Australia)

On 4 January 2022 the Company completed the sale of 100% of the shares held in Pioneer Canada Lithium Corp. (BC1082452) (British Columbia, Canada).

## CAPITAL STRUCTURE

### LISTED SHARES AND OPTIONS ON ISSUE

On 4 August 2021 the Company announced a $5,000,000 placement of new fully paid ordinary shares to sophisticated and professional investors through the issue of 40,000,000 new fully paid ordinary shares at an issue price of $0.125 per new share. Tranche 1 totalling 36,780,000 shares were issued on 11 August 2021. Tranche 2 totalling 3,220,000 shares were issued on 22 September 2021 including 1,200,000 shares issued to Directors of the Company.

As at the date of this report, the Group had 248,033,787 fully paid ordinary shares on issue (ASX:ESS) and 19,174,367 listed share options on issue (ASX:ESSO).

### SHARES UNDER OPTION OR ISSUED ON EXERCISE OF OPTIONS

Details of unissued shares or interests under option as at the date of this report are:

| Issuing entity | Security type | Number | Class of shares | Exercise price of option | Expiry date of option/right |
|---|---|---|---|---|---|
| Essential Metals Ltd | Listed Share Option | 19,174,367 | Ordinary | $0.15 | 30-Nov-2022 |
| Essential Metals Ltd | Unlisted Share Option | 713,890 | Ordinary | $0.45 | 30-Nov-2022 |
| Essential Metals Ltd | Unlisted Share Option | 500,000 | Ordinary | $0.20 | 10-Aug-2023 |
| Essential Metals Ltd | Unlisted Share Option | 500,000 | Ordinary | $0.25 | 31-Jan-2024 |
| Essential Metals Ltd | Unlisted Share Option | 500,000 | Ordinary | $0.35 | 31-Jan-2024 |
| Essential Metals Ltd | Unlisted Share Option | 500,000 | Ordinary | $0.45 | 31-Jan-2024 |
| Essential Metals Ltd | Unlisted Share Option | 533,334 | Ordinary | $0.25 | 30-Jun-2024 |
| Essential Metals Ltd | Unlisted Share Option | 533,334 | Ordinary | $0.35 | 30-Jun-2024 |
| Essential Metals Ltd | Unlisted Share Option | 533,334 | Ordinary | $0.25 | 30-Jun-2024 |
| Essential Metals Ltd | Unlisted Share Option | 200,000 | Ordinary | $0.125 | 30-Sep-2024 |
| Essential Metals Ltd | Unlisted Share Option | 200,000 | Ordinary | $0.175 | 30-Sep-2024 |
| Essential Metals Ltd | Unlisted Share Option | 200,000 | Ordinary | $0.225 | 30-Sep-2024 |
| Essential Metals Ltd | Unlisted Performance Right | 1,145,610 | Ordinary | N/A | 30-Jun-2024 |
| Essential Metals Ltd | Unlisted Performance Right | 500,000 | Ordinary | N/A | 31-Jan-2024 |
| Essential Metals Ltd | Unlisted Performance Right | 2,067,602 | Ordinary | N/A | 30-Jun-2025 |

The holders of these share options and performance rights do not have the right, by virtue of the option or right, to participate in any share issue or interest issue of the Company or of any other body corporate or registered scheme.

### SHARE OPTIONS EXERCISED

During the financial year ended 30 June 2022 3,889,569 ESSO listed share options (2021: Nil) and 1,680,556 unlisted share options were exercised (2021: Nil).

### PERFORMANCE RIGHTS CONVERTED

During the financial year ended 30 June 2022 100,000 unlisted performance rights were converted into ordinary shares (2021: Nil).

## INDEMNIFICATION OF OFFICERS AND AUDITORS

During the financial year, the Company paid a premium in respect of a contract insuring persons who held the positions of director, company secretary, executive officer of any Group company and of any related body corporate during the period against a liability incurred as such a director, secretary or executive officer to the extent permitted by the Corporations Act. The contract of insurance prohibits disclosure of the nature of the liability and the amount of the premium.

During or since the end of the financial year the company has not indemnified or made a relevant agreement to indemnify an auditor of the company or of any related body corporate against a liability incurred as such by an auditor. In addition, the company has not paid, or agreed to pay, a premium in respect of a contract insuring against a liability incurred by an auditor.

## PROCEEDINGS OF BEHALF OF THE COMPANY

No person has applied to the Court under section 237 of the Corporations Act 2001 for leave to bring proceedings on behalf of the Company, or to intervene in any proceedings to which the Company is a party, for the purpose of taking responsibility on behalf of the Company for all or part of those proceedings.

## AUDITOR'S INDEPENDENCE & NON-ASSURANCE SERVICES

A copy of the Auditor's Independence Declaration as required under section 307C of the Corporations Act 2001 is set out on page 55. Other than $4,000 paid for equity incentive valuation services, there were no amounts paid or payable to the Group's auditors BDO Audit (WA) Pty Ltd, for non-assurance services performed during the year ended 30 June 2022 (2021: Nil). Refer to Note 28 for further information.

## ROUNDING OFF OF AMOUNTS

The Company is of a kind referred to in *ASIC Corporations (Rounding in Financials/Directors' Reports) Instrument 2016/191*, dated 24 March 2016, and in accordance with that Corporations Instrument amounts in the directors' report and the financial statements are rounded off to the nearest thousand dollars, unless otherwise stated.

# DIRECTORS' REPORT

## AUDITED REMUNERATION REPORT



### A. INTRODUCTION

This remuneration report, which forms part of the directors' report and has been audited in accordance with section 300A of the Corporations Act 2001, sets out information about the remuneration of the Group's key management personnel ('KMP') for the financial year ended 30 June 2022.

#### Key management personnel

The term 'key management personnel' refers to those persons having authority and responsibility for planning, directing and controlling the activities of the Group, directly or indirectly, including any director (whether executive or otherwise) of the Group.

The directors and other KMP of the Group during or since the end of the financial year were:

| Non-Executive Directors | |
|---|---|
| Mr Craig McGown | Independent Non-executive Chairman |
| Mr Paul Payne | Independent Non-executive director |
| Mr Warren Hallam | Independent Non-executive director |
| **Executive Directors** | |
| Mr Timothy Spencer | Managing Director |
| **Other KMP** | |
| Mr Carl Travaglini | Chief Financial Officer & Company Secretary |
| Mr Andrew Dunn | Exploration Manager |

The above named persons held their current position for the whole of the financial year and since the end of the financial year unless otherwise stated.

### B. REMUNERATION GOVERNANCE

The Company had previously established a Remuneration Committee under a formal charter which comprised a majority of independent directors. The Remuneration Committee was suspended on 31 March 2020 and as at the date of this report the board continues to assume the responsibilities of the Remuneration Committee with executive and other directors excusing themselves from matters of personal interest as required. The Board will continue to consider the need to re-establish the Remuneration Committee in line with the Company's stage of operations and level of complexity.

The Board of Directors responsibilities include reviewing the remuneration arrangements for the executive and non-executive directors and KMP each year in accordance with the Company's remuneration policy approved by the Board. This includes an annual remuneration review and performance appraisal for the Managing Director and other KMP, including their base salary, short-term and long-term incentives, superannuation, termination payments and service contracts.

Further information relating to the role of the Board in relation to remuneration can be found within the Corporate Governance Report provided on the Company's website.

## C. REMUNERATION FRAMEWORK

The Board recognises that the Company's performance and ultimate success of operational delivery depends very much on its ability to attract and retain highly skilled, qualified and motivated people in an increasingly competitive remuneration market. At the same time, remuneration practices must be transparent to shareholders and be fair and competitive taking into account the nature and size of the organisation and its current stage of development.

The approach to remuneration has been structured with the following objectives:

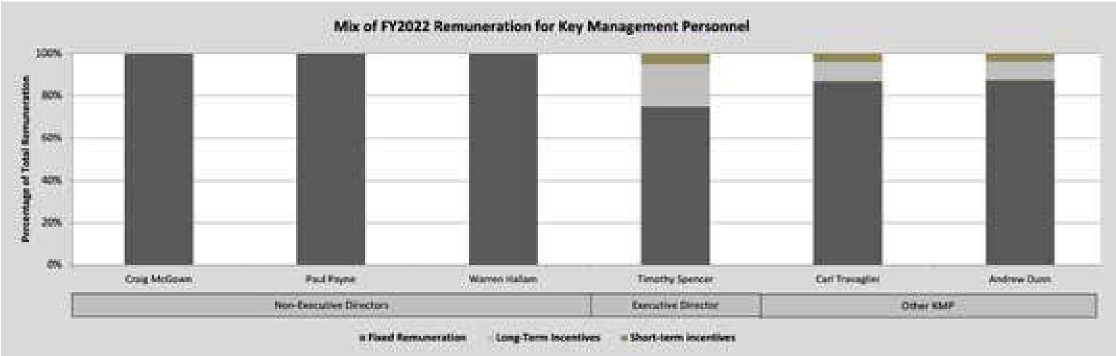
- To attract and retain highly skilled KMP at a critical stage in the Company's exploration for new and development of existing project areas;
- to link remuneration with performance, based on long-term objectives and shareholder return, as well as critical short-term objectives which are aligned with the Company's business strategy;
- to set clear goals and reward for performance in a way which is sustainable, including in respect of health and safety, environment and cost management objectives;
- to be fair and competitive against the market;
- to preserve cash where necessary for exploration and project development, by having the flexibility to attract, reward or remunerate KMP with an appropriate mix of equity-based incentives; and
- to have flexibility in the mix of remuneration, including offering a balance of conservative long-term incentive instruments such as options and performance rights to ensure KMP are rewarded for their efforts, but also share in the upside of the Company's growth and are not adversely affected by tax consequences.

The remuneration framework provides a mix of fixed and variable 'at risk' remuneration and a blend of short and long-term incentives.

The remuneration for the Managing Director and other KMP has three components:

| Remuneration elements | Purpose | Category | Definition of pay category |
|---|---|---|---|
| Fixed Remuneration | Pay for meeting role requirements | Fixed Pay | Pay linked to the present value or market rate of the role. |
| Short-Term Incentive (STI) | Incentive for the achievement of annual objectives | Short-Term Incentive Pay | Pay for delivering the annual operational objectives for Essential Metals. STI pay is linked to the achievement of short-term performance goals. |
| Long-Term Incentive (LTI) | Incentive for achievement of sustained business growth (non-market measures) | Long-Term Incentive Pay | Pay for delivering long-term business sustainability for Essential Metals. LTI pay is linked to the achievement of long-term performance goals. |

To link KMP remuneration with the Company's performance, the Company's policy is to endeavour to provide an appropriate portion of each KMP's total remuneration as 'at risk'. The following graph sets out the mix of remuneration for all KMP between fixed, STIs and LTIs for the 2022 financial year.




### Annual General Meeting voting results

The Company received strong support for its 2021 Remuneration Report as evidenced by voting results at the Company's 2021 Annual General Meeting (AGM).

The Board assesses the appropriateness of the nature of the amount of remuneration of KMP on an annual basis by reference to relevant employment market conditions with the overall objective of ensuring maximum stakeholder benefit from the retention of a high-quality board and management team and that each staff member's remuneration package properly reflects that person's duties and responsibilities. The Board may, however, exercise its discretion in relation to approving incentive bonuses, options and performance rights.

The Company did not employ the services of a remuneration consultant for the current financial year ended 30 June 2022 or previous financial year ended 30 June 2021.

## D. NON-EXECUTIVE DIRECTOR REMUNERATION

The Board policy is to remunerate non-executive directors at market rates for comparable companies for time, commitment and responsibilities. The Board determines payments to the non-executive directors and reviews their remuneration annually, based on market practice, duties and accountability. The maximum aggregate amount of fees that can be paid to non-executive directors is subject to approval by shareholders at a General Meeting. The annual aggregate amount of remuneration paid to non-executive directors was approved by shareholders on 19 November 2009 and is not to exceed $400,000 per annum.

Actual remuneration paid to the Company's non-executive directors is disclosed in Section F below.

Director fees for non-executive directors are not linked to the performance of the Group. However, to align Directors' interests with shareholder interests, the Directors are encouraged to hold shares in the Company and are entitled to receive unlisted share options which are presented as LTI remuneration in the Remuneration Report.

Non-executive directors are not entitled to termination payments.

## E. OTHER KMP REMUNERATION

The Company aims to reward KMP with a level of remuneration commensurate with their position and responsibilities within the Company so as to:

- Reward KMP for Company and individual performance against targets set by reference to appropriate benchmarks;
- Reward KMP in line with the strategic goals and performance of the Company; and
- Ensure that total remuneration is competitive by market standards.

Remuneration packages contain the following key elements:

- Fixed annual remuneration (including salary, leave entitlements, post-employment benefits, ancillary benefits);
- Short-term incentives (cash or equity based); and
- Long-term incentives (equity based).

### Fixed remuneration

KMP receive a fixed base cash salary and other associated benefits. KMP also receive superannuation at a rate equivalent to the superannuation guarantee contribution required by Australian legislation, which was 10% throughout the financial year ended 30 June 2022. No KMP receive any other retirement benefits.

Fixed remuneration of KMP will be set by the Board each year and is based on market relativity and individual performance. In setting fixed remuneration for KMP, individual performance, skills, expertise and experience are also taken into account to determine where the KMP's remuneration should sit within the market range.

Fixed remuneration for KMP will be reviewed annually to ensure each KMP's remuneration remains fair and competitive. However, there is no guarantee that fixed remuneration will be increased in any service contracts for KMP.

### Short-term incentives

Under the Company's remuneration policy, all employees, including the Managing Director and other KMP, were eligible to earn short-term bonuses (in cash or equity) upon achievement of significant performance-based outcomes aligned with the Company's strategic objectives at that time. These performance-based outcomes are considered to be an appropriate link between KMP remuneration and the potential for creation of shareholder wealth.

The objective of the Short-Term Incentive (STI) Plan is to provide the opportunity to earn a cash or equity bonus by rewarding those employees who successfully achieve, in the opinion of the Board, the critical short-term objectives of the Company over a twelve-month period. Those short-term objectives for each employee are pre-determined and approved by the Board as being aligned with the Company's stated strategy to derive shareholder return.

STI's will generally consist of annual bonuses (cash or equity) paid on the following basis:

(i) Performance will be measured over a 12 month period each year;

(ii) a maximum threshold will apply for each employee expressed as a % of their fixed remuneration depending on their role and seniority;

(iii) STIs will be paid at the discretion of the Board, but must be demonstrably linked to performance against critical pre-determined short-term goals of the Company; and

(iv) a combination of group and individual goals may apply for each employee with weightings for each goal approved by the Board - the number of short-term goals per participant will take into account the employee's role, responsibility and seniority - greater weighting is placed on more important goals.

For an employee who resigns or is terminated for cause before the end of the financial year, no STI is awarded for that year. Similarly, any deferred STI awards are forfeited, unless otherwise determined by the Board.

If an employee ceases employment during the performance period by reason of redundancy, ill health, death, or other circumstances approved by the Board, the employee will be entitled to a pro-rata cash payment based on assessment of performance up to the date of ceasing employment for that year and any deferred STI awards will be retained (subject to Board discretion).

At the end of the financial year the Board assesses the actual performance of the Group and individuals against the key performance indicators (KPIs) previously set. Any awarded incentives require Board approval and, if a director is a recipient of incentive equity securities such as options or performance rights, shareholder approval is also required. During the current year, the following performance conditions were developed by the Board for its short-term incentives:

**A. STI awarded - hurdle met by 30 June 2022:**

- Successful completion of the sale of wholly owned subsidiary Pioneer Canada Lithium Corp. which held the Company's 51% interest in the Mavis Lake Lithium Project as announced on 5 January 2022.

**B. STIs forfeited - hurdles not met by 30 June 2022:**

- New project generation;
- significant advancements to existing projects;
- execution of a farm-out joint venture; and

| KMP STIs | Maximum | Granted | % |
|---|---|---|---|
| **A – STIs awarded** | $163,000 | $40,750 | 33% |
| Timothy Spencer | $78,000 | $19,500 | 33% |
| Carl Travaglini | $45,000 | $11,250 | 33% |
| Andrew Dunn | $40,000 | $10,000 | 33% |
| **B – STIs forfeited** | $122,250 | - | - |
| Timothy Spencer | $58,500 | - | - |
| Carl Travaglini | $33,750 | - | - |
| Andrew Dunn | $30,000 | - | - |

### Long-term incentives

Long-term incentives (LTIs) are issued under the Company's Equity Incentive Plan (EIP) approved by shareholders at the AGM held on 15 December 2020. The purpose of issuing LTIs is to reward the management team in a manner which aligns this element of remuneration with the creation of shareholder wealth. As such LTIs are issued to employees who are able to influence the generation of shareholder wealth and thus have an impact on the Company's performance. LTIs issued to employees are delivered in the form of performance rights. The terms of LTIs issued under the Company's EIP are as follows:

(i) The value and resulting number of LTIs issued is based on a maximum threshold applied to each employee expressed as a percentage of their fixed remuneration depending on their role and seniority within the Company;

(ii) performance will be measured over a three year period from grant date; and

(iii) LTIs will be granted at the discretion of the Board, but must be demonstrably linked:

a. 50% of the granted performance rights will be subject to a vesting condition, whereby the Absolute Total Shareholder Return (Absolute TSR) must exceed 25%.

b. 50% of the granted performance rights will be subject to a vesting condition based on Relative Total Shareholder Return (Relative TSR), whereby the Company's TSR must be greater than TSRs of 7 of the 10 peer group of companies over the performance period. This vesting condition can only be met if the Company's absolute TSR is positive.

If an employee resigns or is terminated for cause before the end of the financial year, no LTIs will vest for that year. Similarly, any vested and unexercised LTI awards are forfeited, unless otherwise determined by the Board.

If an employee ceases employment during the performance period by reason of redundancy, ill health, death, or other circumstances approved by the Board, the employee will be entitled to receive any vested but unexercised LTIs as at the date of ceasing employment, subject to Board discretion.

The treatment of vested and unexercised awards in all other circumstances will be determined by the Board with reference to the circumstances of cessation.

The Company prohibits directors or employees from entering into arrangements to protect the value of any Company shares, options or performance rights that the director or employee has become entitled to as part of his/her remuneration package. This includes entering into contracts to hedge their exposure.

## F. DETAILS OF REMUNERATION

| 2022 | Fixed remuneration Base salary $ | Other $ | Super-annuation | ETPs $ | Variable remuneration STIs Cash $ | LTIs[6] Non-cash $ | Total $ | Performance based |
|---|---|---|---|---|---|---|---|---|
| **Current Disclosed KMP** | | | | | | | | |
| *Non-executive Directors* | | | | | | | | |
| C McGown[1] | 82,500 | - | - | - | - | - | 82,500 | 0% |
| P Payne[2] | 54,545 | - | 5,455 | - | - | - | 60,000 | 0% |
| W Hallam[2] | 54,545 | - | 5,455 | - | - | - | 60,000 | 0% |
| *Executive Director* | | | | | | | | |
| T Spencer[3] | 261,000 | 6,412 | 26,950 | - | 19,500 | 78,157 | 392,019 | 25% |
| *Other KMP* | | | | | | | | |
| C Travaglini[4] | 225,000 | 2,443 | 23,625 | - | 11,250 | 26,467 | 288,785 | 13% |
| A Dunn[5] | 200,000 | 9,787 | 21,000 | - | 10,000 | 23,175 | 263,961 | 13% |
| **Total Remuneration** | **877,591** | **18,642** | **82,484** | - | **40,750** | **127,798** | **1,147,265** | **15%** |

**Notes:**

1 - Mr McGown's director fees were paid to Resource Investment Capital Advisors Pty Ltd.
- Mr McGown's director fees were increased to $85,000 per annum plus 10.5% superannuation effective 1 July 2022.

2 - Mr Payne and Mr Hallam's director fees were increased to $60,000 per annum plus 10.5% superannuation effective 1 July 2022.

3 - Mr Spencer's 'other benefits' relate to the cost of working director insurance coverage, the cost of car parking at the Company's premises and a provision for accrued annual leave entitlements.
- Mr Spencer accrued a cash bonus for the current financial year for successfully meeting KPIs as at 30 June 2022 as stated above.
- Mr Spencer's base salary increased from $250,000 to $260,000 per annum effective 1 July 2021.

4 - Mr Travaglini's 'other benefits' relate to the cost of car parking at the Company's premises and a provision for accrued annual leave entitlements.
- Mr Travaglini accrued a cash bonus for the current financial year for successfully meeting KPIs as at 30 June 2022 as stated above.
- Mr Travaglini's base salary increased from $215,000 to $225,000 per annum effective 1 July 2021.

5 - Mr Dunn's 'other benefits' relate to the cost of car parking at the Company's premises and a provision for accrued annual leave entitlements.
- Mr Dunn accrued a cash bonus for the current financial year for successfully meeting KPIs as at 30 June 2022 as stated above.
- Mr Dunn's base salary increased from $180,000 to $200,000 per annum effective 1 July 2021.

6 - Current period apportionment of unlisted performance rights share based payment expense

| 2021 | Fixed remuneration Base salary $ | Other $ | Super-annuation | ETPs $ | Variable remuneration STIs Cash $ | LTIs[6] Non-cash $ | Total $ | Performance based |
|---|---|---|---|---|---|---|---|---|
| **Current Disclosed KMP** | | | | | | | | |
| *Non-executive Directors* | | | | | | | | |
| C McGown[1] | 82,500 | 3,996 | - | - | - | (20,278) | 66,218 | 0% |
| P Payne[2] | 54,794 | 3,996 | 5,205 | - | - | 30,000 | 93,995 | 32% |
| W Hallam[3] | 50,228 | 3,996 | 4,772 | - | - | 23,600 | 82,596 | 29% |
| *Executive Director* | | | | | | | | |
| T Spencer[4] | 250,000 | 5,493 | 24,225 | - | 5,000 | 13,732 | 298,450 | 6% |
| *Other KMP* | | | | | | | | |
| C Travaglini[5] | 215,000 | 13,407 | 20,731 | - | 3,225 | 13,536 | 265,899 | 6% |
| A Dunn[6] | 142,912 | 15,638 | 13,833 | - | 2,700 | 5,676 | 180,759 | 5% |
| **Totals** | **795,434** | **46,526** | **68,766** | - | **10,925** | **66,266** | **987,917** | **8%** |
| | | | | | | | | |
| **Former Disclosed KMP** | | | | | | | | |
| *Other KMP* | | | | | | | | |
| S Kerr[7] | 44,011 | 1,153 | 4,181 | 15,739 | - | (6,840) | 58,244 | 0% |
| **Total Remuneration** | **839,445** | **47,680** | **72,947** | **15,739** | **10,925** | **59,426** | **1,046,161** | **7%** |

**Notes:**

1 - Mr McGown's director fees were paid to Resource Investment Capital Advisors Pty Ltd.
- Mr McGown's 'other benefits' relate to an allocation of the cost of Director's and Officer's insurance coverage during the period.
- Unlisted share options issued to Mr McGown in the financial year ended 30 June 2019 were cancelled in the current financial year resulting in a negative LTI share based payment expense. A share based payment expense was also recognised in the current financial year for replacement unlisted share options issued to Mr McGown on 7 July 2020 following shareholder approval.

2 - Mr Payne's 'other benefits' relate to an allocation of the cost of Director's and Officer's insurance coverage during the period.

3 - Mr Hallam was appointed on 1 August 2020.
- Mr Hallam's 'other benefits' relate to an allocation of the cost of Director's and Officer's insurance coverage during the period.

4 - Mr Spencer's 'other benefits' relate to an allocation of the cost of Director's and Officer's insurance coverage during the period, the cost of working director insurance coverage, the cost of car parking at the Company's premises and a provision for accrued annual leave entitlements.
- Mr Spencer accrued a cash bonus for the current financial year for successfully meeting KPIs as at 30 June 2021 as stated above.
- Unlisted share options issued to Mr Spencer in the financial year ended 30 June 2018 lapsed in the current financial year resulting in a reduction to the LTI share based payment expense.

5 - Mr Travaglini's 'other benefits' relate to an allocation of the cost of Director's and Officer's insurance coverage during the period, the cost of car parking at the Company's premises and a provision for accrued annual leave entitlements.
- Mr Travaglini's base salary increased to from $200,000 to $215,000 per annum effective 25 August 2020 in line with the terms of his Executive Services Agreement.

6 - Mr Dunn became a KMP on 14 September 2020.
- Mr Dunn's 'other benefits' relate to the cost of car parking at the Company's premises and a provision for accrued annual leave entitlements.
- Mr Dunn accrued a cash bonus for the current financial year for successfully meeting KPIs as at 30 June 2021 as stated above.

7 - Mr Kerr ceased to be a KMP on 28 September 2020.
- Mr Kerr's 'other benefits' relate to the cost of car parking at the Company's premises and a provision for accrued annual leave entitlements.
- Unlisted share options issued to Mr Kerr in the financial year ended 30 June 2018 both lapsed and cancelled upon cessation of employment in the current financial year resulting in a negative LTI share based payment expense.

## G. SHARE-BASED COMPENSATION

The following table sets out the type and number of LTIs granted to KMP during the current financial year:

| KMP | Class | Grant Date | Number | Exercise Price | Expiry Date | Vested during year |
|---|---|---|---|---|---|---|
| C Travaglini | Unvested Performance Rights | 27-Jul-2021 | 459,184 | N/A | 30-Jun-2025 | 33% |
| A Dunn | Unvested Performance Rights | 27-Jul-2021 | 408,163 | N/A | 30-Jun-2025 | 33% |
| T Spencer | Unvested Performance Rights | 23-Nov-2021 | 795,918 | N/A | 30-Jun-2025 | 33% |
| **Total** | | | **1,663,265** | | | |

The movement in equity instruments over shares for KMP in the current year was as follows:

| Share Options | Balance at 1 July 2021 | Granted as compensation | Exercised | Lapsed or cancelled | Balance at 30 June 2022 | Balance vested & exercisable at 30 June 2022 | Vested during year |
|---|---|---|---|---|---|---|---|
| C McGown | 1,176,472 | - | - | - | 1,176,472 | 1,176,472 | - |
| P Payne | 776,470 | - | - | - | 776,470 | 776,470 | - |
| W Hallam | 600,000 | - | - | - | 600,000 | 600,000 | - |
| T Spencer | 1,676,470 | - | (176,470) | - | 1,500,000 | 1,500,000 | - |
| **Totals** | **4,229,412** | - | **(176,470)** | - | **4,052,942** | **4,052,942** | - |

| Performance Rights | Balance at 1 July 2021 | Granted as compensation | Exercised | Lapsed or cancelled | Balance at 30 June 2022 | Balance vested & exercisable at 30 June 2022 | Vested during year |
|---|---|---|---|---|---|---|---|
| T Spencer | 954,545 | 795,918 | - | - | 1,750,463 | - | - |
| C Travaglini | 393,182 | 459,184 | (100,000) | - | 752,366 | - | - |
| A Dunn | 245,455 | 408,163 | - | - | 653,618 | - | - |
| **Totals** | **1,593,182** | **1,663,265** | **(100,000)** | - | **3,156,447** | - | - |

All equity instruments issued to KMP were made in accordance with the provisions of the Group's Equity Incentive Plan.

There were no unlisted share options exercised and 100,000 unlisted performance rights converted during the current reporting period by KMP.

Further details of the Group's Equity Incentive Plan and of equity incentives issued during the current and prior financial years are contained in Note 18 to the financial statements.

The number of shares in the Company held during the current reporting period by each KMP, including their related parties, are set out below:

| | Balance at 1 July 2021 | Acquired upon exercise of ESSO listed share options | Acquired Upon conversion of unlisted performance rights | Acquired through Placement participation | Balance at 30 June 2022 |
|---|---|---|---|---|---|
| C McGown[1] | 1,600,561 | - | - | 400,000 | 2,000,561 |
| P Payne[2] | 554,099 | - | - | 200,000 | 754,099 |
| W Hallam | - | - | - | 200,000 | 200,000 |
| T Spencer[3] | 712,941 | 176,470 | - | 400,000 | 1,289,411 |
| C Travaglini | 196,470 | - | 100,000 | - | 296,470 |
| **Totals** | **3,064,071** | **176,470** | **100,000** | **1,200,000** | **4,540,541** |

**Notes:**
1 Mr McGown's shares are held under the nominee account Ionikos Pty Ltd ATF <McGown Super Fund A/C>. Mr McGown has a relevant interest in Ionikos Pty Ltd and is a beneficiary of the McGown Super Fund A/C.
2 Mr Payne's shares are held under the nominee account Payne Geological Services Pty Ltd ATF <Payne Super Fund A/C>. Mr Payne has a relevant interest in Payne Geological Services Pty Ltd and is a beneficiary of the Payne Super Fund A/C.
3 Mr Spencer's shares are held under the nominee account <Spencer Investment A/C>. Mr Spencer is a beneficiary of the Spencer Investment A/C.

## H. KEY TERMS OF EMPLOYMENT AGREEMENTS WITH EXECUTIVE KMP

| Element of remuneration | Summary of contractual terms |
|---|---|
| Fixed Remuneration | Refer to the above Remuneration table. |
| Contract duration | Indefinite subject to termination with or without cause |
| Notice by individual | Managing Director – 3 months<br>Chief Financial Officer and Company Secretary – 2 months<br>Exploration Manager – 2 months |
| Notice by Company | **Managing Director:**<br>With cause - immediate dismissal to 6 months depending on circumstances<br>Without cause - 6 months<br><br>**Chief Financial Officer and Company Secretary:**<br>With cause - immediate dismissal to 4 months depending on circumstances<br>Without cause - 4 months<br><br>**Exploration Manager:**<br>With cause - immediate dismissal to 1 month depending on circumstances<br>Without cause - 2 months |
| Termination of employment by the Company (without cause) | STI entitlement and LTI forfeiture is assessed by the Board |
| Termination of employment by the Company (with cause) or by the individual | Any benefits due to the Managing Director, Chief Financial Officer / Company Secretary and Exploration Manager under the Company's STI and LTI plans, subject to ASX Listing Rule 10.18 and the Corporations Act. |

## I. RELATIONSHIP BETWEEN THE REMUNERATION POLICY AND COMPANY PERFORMANCE

The Company's remuneration policy is designed to promote superior performance and long-term commitment to the Company. The main principles of the policy when considering remuneration are as follows:

- Management is motivated to pursue long-term growth and success of the Company within an appropriate control framework;
- interests of management are aligned with the long-term interests of the Company's shareholders; and
- there is a clear correlation between performance and remuneration.

The table below sets out summary information about the Company's earnings and movements in shareholder wealth for the 5 years to 30 June 2022:

| | 2022 | 2021 | 2020 | 2019 | 2018 |
|---|---|---|---|---|---|
| Revenue ($'000) | - | 106 | 9,127 | 10,528 | 243 |
| Net profit/(loss) before tax ($'000) | (1,407) | (1,383) | 1,361 | 273 | (3,528) |
| Net profit/(loss) after tax ($'000) | (1,407) | (1,383) | 1,361 | 273 | (3,528) |
| Net earnings/(loss) after tax per share (cents per share)[1] | (0.59) | (0.77) | 0.90 | 0.18 | (2.7) |
| Share price at end of year (cents per share) | 35.5 | 9.5 | 11 | 11 | 19 |
| Absolute total shareholder return[2] | 274% | (14%) | - | n/a | n/a |
| Relative total shareholder return[2] | 80% | 36% | 73% | n/a | n/a |

**Note:**
1 Includes diluted earnings/(loss) after tax per share.
2 Absolute total shareholder return and relative total shareholder return were not relevant to LTI performance prior to 2020.

### Other director related party transactions

There were no other transactions with related parties during or outstanding at the end of the current reporting period.

There were no loans paid to or received from KMP during or outstanding at the end of the current or comparative reporting periods.

**END OF THE REMUNERATION REPORT**

This report of the Directors incorporating the Remuneration Report is signed in accordance with a resolution of the Board of Directors, pursuant to section 298(2)(a) of the Corporations Act 2001.

On behalf of the directors

**Craig McGown**
*Chairman of the Board*
Perth, Western Australia,
28 September 2022

# AUDITORS' **INDEPENDENCE DECLARATION**

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5 Spring Street
Perth WA 6000
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Australia

**DECLARATION OF INDEPENDENCE BY PHILLIP MURDOCH TO THE DIRECTORS OF ESSENTIAL METALS LIMITED**

As lead auditor of Essential Metals Limited for the year ended 30 June 2022, I declare that, to the best of my knowledge and belief, there have been:

1. No contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the audit; and
2. No contraventions of any applicable code of professional conduct in relation to the audit.

This declaration is in respect of Essential Metals Limited and the entities it controlled during the period.

**Phillip Murdoch**

**Director**

**BDO Audit (WA) Pty Ltd**

Perth

28 September 2022

# FINANCIAL REPORT

# CONSOLIDATED STATEMENT OF
# PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

| | Notes | 30 June 2022 $'000 | 30 June 2021 $'000 |
|---|---|---|---|
| **CONTINUING OPERATIONS** | | | |
| Revenue from sale of goods | 7 | - | 106 |
| Cost of sales | | - | (1) |
| **GROSS PROFIT** | | - | 105 |
| | | | |
| Other income | 8 | **526** | 567 |
| Interest income | | **30** | 46 |
| Exploration expenditure | | **(3)** | (100) |
| Employee benefits expense (incl. director fees) | 10 | **(783)** | (738) |
| Compliance & regulatory expenses | | **(188)** | (166) |
| Consultancy expenses | | **(274)** | (93) |
| Business development & investor relations | | **(219)** | (106) |
| Administration costs | | **(143)** | (133) |
| Interest expense | | **(10)** | (17) |
| Exploration and evaluation expenditure written off | 14 | **(113)** | (477) |
| Depreciation – Right-of-use assets | | **(32)** | (84) |
| Depreciation – Plant, equipment and motor vehicles | | **(14)** | (23) |
| Loss on disposal of plant, equipment and motor vehicles | | **(18)** | (35) |
| Foreign exchange differences | | **(1)** | (22) |
| Share based payments | | **(165)** | (107) |
| **LOSS BEFORE TAX** | | **(1,407)** | (1,383) |
| | | | |
| Income tax | 11 | - | - |
| | | | |
| **LOSS FOR THE PERIOD FOR CONTINUING OPERATIONS** | | **(1,407)** | (1,383) |
| | | | |
| **OTHER COMPREHENSIVE INCOME/(LOSS)** | | | |
| *Items that may be reclassified subsequently to profit or loss:* | | | |
| Exchange differences on translation of foreign operations | | **(91)** | 17 |
| | | | |
| *Items that will not be reclassified subsequently to profit or loss:* | | | |
| Changes in the fair value of financial assets | 13 | **75** | (172) |
| **TOTAL OTHER COMPREHENSIVE INCOME/(LOSS)** | | **(16)** | (155) |
| | | | |
| **TOTAL COMPREHENSIVE INCOME/(LOSS) FOR THE PERIOD, NET OF INCOME TAX** | | **(1,423)** | (1,538) |
| | | | |
| **EARNINGS PER SHARE FROM CONTINUING OPERATIONS** | | | |
| Basic and diluted net loss per share attributable to ordinary equity holders | 9 | **(0.59c)** | (0.77c) |

The above consolidated statement of profit or loss and other comprehensive income should be read in conjunction with the accompanying notes.

# CONSOLIDATED STATEMENT OF FINANCIAL POSITION

| | Notes | 30 June 2022 $'000 | 30 June 2021 $'000 |
|---|---|---|---|
| **CURRENT ASSETS** | | | |
| Cash and cash equivalents | 12(a) | **10,527** | 5,466 |
| Trade and other receivables | | **443** | 15 |
| Investments | 13 | **113** | 273 |
| Prepayments | | **44** | 36 |
| **TOTAL CURRENT ASSETS** | | **11,127** | 5,790 |
| | | | |
| **NON-CURRENT ASSETS** | | | |
| Exploration and evaluation expenditure | 14 | **16,726** | 15,430 |
| Right-of-use assets | | **253** | 171 |
| Plant, equipment and motor vehicles | | **95** | 147 |
| Bank restricted deposits | | **21** | 22 |
| **TOTAL NON-CURRENT ASSETS** | | **17,095** | 15,770 |
| | | | |
| **TOTAL ASSETS** | | **28,221** | 21,560 |
| | | | |
| **CURRENT LIABILITIES** | | | |
| Trade and other payables | 15 | **564** | 223 |
| Provisions | 16 | **1,122** | 755 |
| Lease Liabilities | | **43** | 47 |
| **TOTAL CURRENT LIABILITIES** | | **1,729** | 1,025 |
| | | | |
| **NON-CURRENT LIABILITIES** | | | |
| Lease liabilities | | **210** | 132 |
| **TOTAL NON-CURRENT LIABILITIES** | | **210** | 132 |
| | | | |
| **TOTAL LIABILITIES** | | **1,938** | 1,157 |
| | | | |
| **NET ASSETS** | | **26,283** | 20,403 |
| | | | |
| **EQUITY** | | | |
| Contributed equity | 17 | **50,150** | 44,538 |
| Reserves | 20 | **1,350** | 1,193 |
| Accumulated losses | 21 | **(25,217)** | (25,328) |
| **TOTAL EQUITY** | | **26,283** | 20,403 |

The above consolidated statement of financial position should be read in conjunction with the accompanying notes.

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

| | Contributed equity | Share-based payment reserve | Investment revaluation reserve | Foreign exchange translation reserve | Accumulated losses | Total equity |
|---|---|---|---|---|---|---|
| | $'000 | $'000 | $'000 | $'000 | $'000 | $'000 |
| **BALANCE AT 1 JULY 2021** | **44,538** | **1,163** | **(61)** | **91** | **(25,328)** | **20,403** |
| Loss for the year | **-** | **-** | **-** | **-** | **(1,407)** | **(1,407)** |
| **OTHER COMPREHENSIVE INCOME/(LOSS):** | | | | | | |
| Fair value adjustment of financial assets | **-** | **-** | **75** | **-** | **-** | **75** |
| Exchange differences on foreign operations | **-** | **-** | **-** | **(91)** | **-** | **(91)** |
| **TOTAL COMPREHENSIVE INCOME/(LOSS)** | **-** | **-** | **75** | **(91)** | **(1,407)** | **(1,423)** |
| | | | | | | |
| Reclassification of gain on sale of financial assets | **-** | **-** | **-** | **-** | **1,518** | **1,518** |
| Share based payments | **-** | **165** | **-** | **-** | **-** | **165** |
| Shares issued for cash (net of transaction costs) | **4,719** | **108** | **-** | **-** | **-** | **4,827** |
| Shares issued on conversion of listed share options | **493** | **-** | **-** | **-** | **-** | **493** |
| Shares issued on conversion of unlisted share options | **300** | **-** | **-** | **-** | **-** | **300** |
| Listed share option exercise valuation reallocation | **100** | **(100)** | **-** | **-** | **-** | **-** |
| **BALANCE AT 30 JUNE 2022** | **50,150** | **1,336** | **14** | **-** | **(25,217)** | **26,283** |

| | Contributed equity | Share-based payment reserve | Investment revaluation reserve | Foreign exchange translation reserve | Accumulated losses | Total equity |
|---|---|---|---|---|---|---|
| | $'000 | $'000 | $'000 | $'000 | $'000 | $'000 |
| **BALANCE AT 1 JULY 2020** | 41,184 | 405 | 10 | 74 | (23,843) | 17,829 |
| Profit for the year | - | - | - | - | (1,383) | (1,383) |
| **OTHER COMPREHENSIVE INCOME/(LOSS):** | | | | | | |
| Fair value adjustment of financial assets | - | - | (172) | - | - | (172) |
| Exchange differences on foreign operations | - | - | - | 17 | - | 17 |
| **TOTAL COMPREHENSIVE INCOME/(LOSS)** | - | - | (172) | 17 | (1,383) | (1,538) |
| | | | | | | |
| Sale of financial assets | - | - | 101 | - | (101) | - |
| Share based payments | - | 107 | - | - | - | 107 |
| Shares issued for cash (net of transaction costs) | 3,952 | - | - | - | - | 3,952 |
| Shares not issued for cash (tenement consultancy costs) | 53 | - | - | - | - | 53 |
| Share placement option valuation | (337) | 337 | - | - | - | - |
| Share purchase plan option valuation | (314) | 314 | - | - | - | - |
| **BALANCE AT 30 JUNE 2021** | 44,538 | 1,163 | (61) | 91 | (25,328) | 20,403 |

The above consolidated statement of changes in equity should be read in conjunction with the accompanying notes.

# CONSOLIDATED STATEMENT OF
# CASH FLOWS

| | Notes | 30 June 2022 $'000 | 30 June 2021 $'000 |
|---|---|---|---|
| **CASH FROM OPERATING ACTIVITIES** | | | |
| Receipts from customers | | **-** | 369 |
| Payments to suppliers and employees | | **(1,500)** | (1,225) |
| Interest received | | **20** | 22 |
| Other income received | | **13** | 21 |
| Exploration expensed | | **(3)** | (100) |
| Government incentives received | | **-** | 36 |
| **NET CASH USED IN OPERATING ACTIVITIES** | 12(b) | **(1,470)** | (877) |
| | | | |
| **INVESTING ACTIVITIES** | | | |
| Payments for exploration and evaluation | | **(2,787)** | (2,512) |
| Payments for plant and equipment | | **(17)** | (72) |
| Receipts from sales of plant, equipment and motor vehicles | | **-** | 35 |
| Proceeds from the relinquishment of tenement rights | | **401** | 325 |
| Proceeds from the sale of listed investments | | **2,965** | 322 |
| Proceeds from the sale of subsidiaries | | **485** | - |
| Payments relating to the disposal of subsidiaries | | **(85)** | - |
| Payments for the purchase of royalty rights | | **-** | (150) |
| Government incentives received | | **-** | 131 |
| **NET CASH FROM/(USED IN) INVESTING ACTIVITIES** | | **962** | (1,921) |
| | | | |
| **FINANCING ACTIVITIES** | | | |
| Repayment of lease liabilities | | **(50)** | (81) |
| Proceeds from the issue of shares | | **5,965** | 4,190 |
| Payments for share issue transaction costs | | **(346)** | (236) |
| **NET CASH FROM FINANCING ACTIVITIES** | | **5,569** | 3,873 |
| | | | |
| **NET INCREASE IN CASH AND CASH EQUIVALENTS** | | **5,061** | 1,075 |
| | | | |
| **CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR** | | **5,466** | 4,391 |
| Effect of foreign exchange rate changes | | **-** | - |
| **CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR** | 12(a) | **10,527** | 5,466 |

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

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

CONTENTS

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 1. GENERAL INFORMATION

**Basis of preparation**
The financial report covers the Group consisting of Essential Metals Limited and its subsidiaries.

The financial report consists of the financial statements, notes to the financial statements and the directors' declaration.

The financial report is prepared and presented in Australian dollars.

Essential Metals Limited is a company limited by shares, incorporated and domiciled in Australia. Its registered office and principal place of business are:

Level 3, 1292 Hay Street
West Perth, Western Australia 6005

A description of the nature of the Group's operations and its principal activities is included in the directors' report, which is not part of the financial report.

The financial statements and notes have been prepared on the basis of historical costs and do not take into account changing money values except for investments which are carried at fair value through the fair value reserve and other comprehensive income, or, except where stated, current valuations of non-current assets.

The financial report was authorised for issue, in accordance with a resolution of directors, on 28 September 2022. The directors have the power to amend and reissue the financial report.

**Statement of compliance**
These financial statements are general purpose financial statements which have been prepared in accordance with the *Corporations Act 2001,* Accounting Standards and other authoritative pronouncements issued by the Australian Accounting Standards Board (AASB) and comply with other requirements of the law. The consolidated financial statements of the Group also comply with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB).

The financial statements comprise the consolidated financial statements of the Group. For the purposes of preparing the consolidated financial statements, the Company is a for-profit entity.

**Basis of consolidation**
*Controlled entity*
The consolidated financial statements comprise the financial statements of Essential Metals Limited and its subsidiaries as at 30 June each year.

The financial statements of the subsidiaries are prepared for the same reporting period as the parent company, using consistent accounting policies.

Control is achieved when the Company:
- has power over the investee;
- is exposed, or has rights, to variable returns from its involvement with the investee; and
- has the ability to use its power to affect its returns.

The Company reassesses whether it controls an investee by the facts and circumstances indicating if there are changes to one or more of the three elements of control listed above.

In preparing the consolidated financial statements, all intercompany balances and transactions, income and expenses and profit and losses resulting from intra-group transactions have been eliminated in full. The subsidiaries are fully consolidated from the date on which control is transferred to the Group and ceases to be consolidated from the date on which control is transferred out of the Group.

The acquisition of subsidiaries is accounted for using the purchase method of accounting. The purchase method of accounting involves allocating the cost of the business combination to the fair value of the assets acquired and the liabilities and contingent liabilities assumed at the date of acquisition. Accordingly, the consolidated financial statements include the results of any new subsidiaries for the period from their acquisition.

Changes in the Group's interests in subsidiaries that do not result in a loss of control are accounted for as equity transactions. The carrying amount of the Group's interests and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to the owners of the Company.

When the Group loses control of a subsidiary, the gain or loss on disposal recognised in profit or loss is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the previous carrying amount of the assets (including goodwill), less liabilities of the subsidiary and any non-controlling interests. All amounts previously recognised in other comprehensive income in relation to that subsidiary are accounted for as if the Group had directly disposed of the related assets or liabilities of the subsidiary (i.e. reclassified to profit or loss or transferred to another category of equity as required/permitted by applicable IFRS Standards). The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under IFRS 9 when applicable, or the cost on initial recognition of an investment in an associate or a joint venture.

**Presentation and functional currency and rounding**
The functional and presentation currencies of these financial statements are both Australian Dollars ($). Foreign operations are included in accordance with the policies set out in Note 4.

The Company is a company of a kind referred to in *ASIC Corporations (Rounding in Financials/Directors' Reports) Instrument 2016/191,* dated 24 March 2016 and, in accordance with that Corporations Instrument, amounts in the financial report are rounded off to the nearest thousand dollars, unless otherwise indicated.

## 2. NEW OR AMENDED ACCOUNTING STANDARDS AND INTERPRETATIONS ADOPTED

The Group has adopted all of the new or Amended Accounting Standards and Interpretations issued by the Australian Accounting Standards Board (AASB) that are mandatory for the current reporting period.

Any new or amended Accounting Standards or Interpretations that are not yet mandatory have not been early adopted.

## 3. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

The preparation of a financial report in conformity with Australian Accounting Standards requires management or directors to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates. The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions are recognised in the period in which the estimate is revised. These accounting policies have been consistently applied by each entity in the Group.

In particular, information about significant areas of estimation uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amount recognised in the financial statements are described in the following notes:

**Capitalised Mineral Exploration**

The accounting policy for exploration and evaluation expenditure is set out in accounting policy Note 4.7. The application of this policy necessarily requires management to make certain estimates and assumptions as to future events and circumstances, in particular, the assessment of whether economic quantities of reserves have been identified. Any such estimates and assumptions may change as new information becomes available. If, after having capitalised expenditure under this policy, it is concluded that the Group is unlikely to recover the expenditure by future exploitation or sale, then the relevant capitalised amount will be written off to profit and loss.

**Mine rehabilitation and site restoration process**

The Group assesses its mine rehabilitation and site restoration provision at each reporting date in accordance with accounting policy Note 4.11. Significant judgement is required in determining the provision for mine rehabilitation and site restoration as there are many transactions and other factors that will affect the ultimate liability payable to rehabilitate and restore the mine sites and related assets. Factors that will affect this liability include changes in technology, price increases and changes in interest rates. When these factors change or become known in the future, such differences will impact the site restoration provision in the period in which they change or become known.

**Share-based payment transactions**

The Group measures the cost of equity-settled transactions by reference to the fair value of the equity instruments at the date at which they are granted. In the current year, the fair value was determined by the Company using a Black-Scholes model or other appropriate valuation methods, using the assumptions detailed in Note 19. Any fluctuations in volatility, interest rates and market measures will impact on the Company's share-based payment expense in the statement of profit or loss in the period that the fluctuation occurs.

**Right-of-use assets and lease liabilities**

Lease liabilities are discounted using an incremental borrowing rate. The incremental borrowing rate varies depending on the nature of the leased asset. Lease liabilities have been calculated over the life of the lease term, contractual extension options are considered and are included in the calculation of the lease term unless or until the Company decides that an option to extend a contract will not be exercised resulting in a revaluation of the present value of the associated remaining lease payments impacting on ROU assets and depreciation, lease liabilities and interest expenditure in the period the reassessment occurs.

**Provision for Canadian income tax**

The Group has recognised an income tax provision to allow for any potential income tax payable by the Group to the Canadian Revenue Authority (CRA) in relation to the sale of wholly owned subsidiary Pioneer Canada Lithium Corp (PCLC) on 4 January 2022. As at the date of this Report the CRA was unable to provide the Group with the expected amount or timing of any income tax payable. The provision has been recorded using the full A$385,000 receivable recognised by the Group at the end of the current reporting period, being the balance of the sale proceeds held in trust by the purchaser's legal counsel until such time that the CRA can complete their assessment of the income tax payable (if any) on the sale of PCLC.

**Use of estimates**

The Directors have considered a number of factors in regard to any forward-looking estimates. The use of estimates is inherently uncertain and requires a significant level of judgement. Forward looking estimates have been used in the preparation of the financial report in respect of the impairment of exploration assets and the preparation of the financial report on a going concern basis.

Management and the Directors have concluded that appropriate assessments have been made with respect to the use of forecasts in the preparation of the financial report.

## 4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### 4.1 Income tax

The income tax expense or benefit for the period is the tax payable on the current period's taxable income based on the income tax rate adjusted by changes in deferred tax assets and liabilities attributable to temporary differences between the tax bases of assets and liabilities and their carrying amounts in the financial statements, and to unused tax losses.

Deferred tax assets and liabilities are recognised for temporary differences at the tax rates expected to apply when the assets are recovered or liabilities are settled, based on those tax rates which are enacted. The relevant tax rates are applied to the cumulative amounts of deductible and taxable temporary differences to measure the deferred tax asset or liability. An exception is made for certain temporary differences arising from the initial recognition of an asset or a liability. No deferred asset or liability is recognised in relation to those temporary differences if they arose in a transaction, other than a business combination, that at the time of the transaction did not affect either accounting profit or taxable profit or loss.

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

Deferred tax liabilities and assets are not recognised for temporary differences between the carrying amount and tax bases of investments in controlled entities where the parent entity is able to control the timing of the reversal of the temporary differences and it is probable that the differences will not reverse in the foreseeable future.

Current and future tax balances attributable to amounts recognised directly in equity are also recognised directly in equity.

#### 4.1.1 Australian Tax consolidation legislation

The Company and its wholly owned Australian controlled entities implemented the tax consolidation legislation as of 1 July 2014.

The head entity, Essential Metals Limited and the controlled entities in the tax consolidated group continue to account for their own current and deferred tax amounts. The Group has applied the Group allocation approach in determining the appropriate amount of current taxed and deferred taxes to allocate to the members of the tax consolidated group.

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

### 4.2 Revenue from contracts with customers

The Group recognises revenue from sales to customers. For all sales, revenue is recognised when control has transferred, being on delivery to the customer.

Costs directly attributable to the recognition of revenue are recognised within cost of sales in the corresponding reporting period to which the related revenue is recognised.

All revenue is stated net of the amount of goods and services tax (GST).

### 4.3 Interest income

Interest income is recognised on a time proportionate basis that takes into account the effective yield on the financial asset.

### 4.4 Cash and cash equivalents

Cash and short-term deposits in the statement of financial position comprise of cash at bank and on hand and short-term deposits with an original maturity of 90 days or less.

For the purposes of the Statement of Cash Flows, cash and cash equivalents consist of cash and cash equivalents as defined above, which are readily convertible to cash on hand and which are used in the cash management function on a day-to-day basis.

**4.5 Exploration and evaluation expenditure**

Mineral exploration and evaluation expenditure incurred is accumulated in respect of each identifiable area of interest and is subject to impairment testing. These costs are carried forward only if they relate to an area of interest for which rights of tenure are current and in respect of which:

- such costs are expected to be recouped through the successful development and exploitation of the area of interest, or alternatively by its sale; or
- exploration and/or evaluation activities in the area have not reached a stage which permits a reasonable assessment of the existence or otherwise of economically recoverable reserves and active or significant operations in, or in relation to, the area of interest and those exploration and/or evaluation activities are continuing.

Exploration and evaluation expenditure that is capitalised may include costs of licence acquisitions, technical services and studies and exploration drilling and testing. Any costs incurred prior to the acquisition of the legal rights to explore an area are expensed as incurred.

In the event that an area of interest is abandoned or if the Directors consider the expenditure to be of reduced value, accumulated costs carried forward are written off in the year in which that assessment is made. A regular review is undertaken of each area of interest to determine the appropriateness of continuing to carry forward costs in relation to that area of interest.

Where a mineral resource has been identified and where it is expected that future expenditures will be recovered by future exploitation or sale, the impairment of the exploration and evaluation is written back the extent that it can be recovered and transferred to development costs. Once production commences, the accumulated costs for the relevant area of interest are amortised over the life of the area according to the rate of depletion of the economically recoverable reserves.
Costs of site restoration and rehabilitation are recognised when the Group has a present obligation, the future sacrifice of economic benefits is probable, and the amount of the provision can be reliably estimated.

Exploration and evaluation assets are assessed for impairment if:

i. the period for which the entity has the right to explore in a specific area has expired during the period or will expire in the near future, and is not expected to be renewed; or
ii. substantive expenditure on further exploration for and evaluation of mineral resources in a specific area is neither budgeted nor planned; or
iii. exploration for and evaluation of mineral resources in a specific area have not led to the discovery of commercially viable quantities of mineral resources and the Group has decided to discontinue such activities in that specific area; or
iv. sufficient data exists to indicate that, although development of a specific area is likely to proceed, the carrying amount of the exploration and evaluation asset is unlikely to be recovered in full from successful development or by sale.

For the purpose of impairment testing, exploration and evaluation assets are allocated to cash-generating units to which the exploration activity relates. The cash generating unit shall not be larger than the area of interest.

Once the technical feasibility and commercial viability of the extraction of mineral resources in an area of interest are demonstrable, exploration and evaluation assets attributable to that area of interest are first tested for impairment and then re-classified from intangible assets to mining property and development assets within property, plant and equipment.

***Exploration related government grants***

Government grants (such as a Research and Development Government grant) are not recognised until there is reasonable assurance that the Company will comply with the conditions attaching to them and that the grants will be received. Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Company with no future related costs are recognised in profit or loss in the period in which they become receivable. This is offset against exploration expenditure incurred and capitalised. Refer Note 4.18 for further information on Government Grants.

Any grants approved by the Government of Western Australian under the Exploration Incentive Scheme ("EIS") Co-Funded Industry Drilling Program are offset against exploration drilling expenditure incurred at the Group's approved designated project.

***Farm-outs – exploration and evaluation phase***

The Group accounts for the treatment of farm-out arrangements under AASB 6 *Evaluation of Mineral Resources* under these arrangements:

- The farmor will not capitalise any expenditure settled by the farminee;
- Any proceeds received that are not attributable to future expenditure are initially credited against the carrying amount of any existing E&E asset; and
- To the extent that the proceeds received from the farminee exceed the carrying amount of any E&E asset that has already been capitalised by the farmor this excess is recognised as a gain in profit or loss.

**4.6 Financial instruments**

Financial assets and financial liabilities are recognised in the Group's statement of financial position when the Group becomes a party to the contractual provisions of the instrument.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

**Financial assets**

All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

All recognised financial assets are measured subsequently in their entirety at either amortised cost or fair value, depending on the classification of the financial assets.

***Classification of financial assets***

Debt instruments that meet the following conditions are measured subsequently at amortised cost:

- the financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Debt instruments that meet the following conditions are measured subsequently at fair value through other comprehensive income (FVTOCI):

- the financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling the financial assets; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

By default, all other financial assets are measured subsequently at fair value through profit or loss (FVTPL).

Despite the foregoing, the Group may make the following irrevocable election/designation at initial recognition of a financial asset:

- the Group may irrevocably elect to present subsequent changes in fair value of an equity investment in other comprehensive income if certain criteria are met (see (ii) below); and
- the Group may irrevocably designate a debt investment that meets the amortised cost or FVTOCI criteria as measured at FVTPL if doing so eliminates or significantly reduces an accounting mismatch (see (iii) below).

***(i) Amortised costs and effective interest method***

The effective interest method is a method of calculating the amortised cost of a debt instrument and of allocating interest income over the relevant period.

For financial assets other than purchased or originated credit-impaired financial assets (i.e. assets that are credit-impaired on initial recognition), the effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) excluding expected credit losses, through the expected life of the debt instrument, or, where appropriate, a shorter period, to the gross carrying amount of the debt instrument on initial recognition. For purchased or originated credit-impaired financial assets, a credit-adjusted effective interest rate is calculated by discounting the estimated future cash flows, including expected credit losses, to the amortised cost of the debt instrument on initial recognition.

The amortised cost of a financial asset is the amount at which the financial asset is measured at initial recognition minus the principal repayments, plus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount, adjusted for any loss allowance. The gross carrying amount of a financial asset is the amortised cost of a financial asset before adjusting for any loss allowance.

Interest income is recognised using the effective interest method for debt instruments measured subsequently at amortised cost and at FVTOCI. For financial assets other than purchased or originated credit-impaired financial assets, interest income is calculated by applying the effective interest rate to the gross carrying amount of a financial asset, except for financial assets that have subsequently become credit-impaired (see below). For financial assets that have subsequently become credit-impaired, interest income is recognised by applying the effective interest rate to the amortised cost of the financial asset. If, in subsequent reporting periods, the credit risk on the credit-impaired financial instrument improves so that the financial asset is no longer credit-impaired, interest income is recognised by applying the effective interest rate to the gross carrying amount of the financial asset.

For purchased or originated credit-impaired financial assets, the Group recognises interest income by applying the credit-adjusted effective interest rate to the amortised cost of the financial asset from initial recognition. The calculation does not revert to the gross basis even if the credit risk of the financial asset subsequently improves so that the financial asset is no longer credit-impaired.

Interest income is recognised in profit or loss and is included in the 'finance income' line item.

***(ii) Equity instruments designated as at FVTOCI***

On initial recognition, the Group may make an irrevocable election (on an instrument-by-instrument basis) to designate investments in equity instruments as at FVTOCI. Designation at FVTOCI is not permitted if the equity investment is held for trading or if it is contingent consideration recognised by an acquirer in a business combination.

A financial asset is held for trading if:

- it has been acquired principally for the purpose of selling it in the near term; or
- on initial recognition it is part of a portfolio of identified financial instruments that the Group manages together and has evidence of a recent actual pattern of short-term profit-taking; or
- it is a derivative (except for a derivative that is a financial guarantee contract or a designated and effective hedging instrument).

Investments in equity instruments at FVTOCI are initially measured at fair value plus transaction costs. Subsequently, they are measured at fair value with gains and losses arising from changes in fair value recognised in other comprehensive income and accumulated in the Investment Revaluation Reserve. The cumulative gain or loss is not reclassified to profit or loss on disposal of the equity investments, instead, it is transferred to retained earnings.

Dividends on these investments in equity instruments are recognised in profit or loss in accordance with IFRS 9, unless the dividends clearly represent a recovery of part of the cost of the investment. Dividends are included in the 'finance income' line item in profit or loss.

The Group designated all investments in equity instruments that are not held for trading as at FVTOCI on initial recognition (see Note 13).

***(iii) Financial assets at FVTPL***

Financial assets that do not meet the criteria for being measured at amortised cost or FVTOCI (see (i) to (ii) above) are measured at FVTPL. Specifically:

- Investments in equity instruments are classified as at FVTPL, unless the Group designates an equity investment that is neither held for trading nor a contingent consideration arising from a business combination as at FVTOCI on initial recognition (see (ii) above).
- Debt instruments that do not meet the amortised cost criteria or the FVTOCI criteria (see (i) and (ii) above) are classified as at FVTPL. In addition, debt instruments that meet either the amortised cost criteria or the FVTOCI criteria may be designated as at FVTPL upon initial recognition if such designation eliminates or significantly reduces a measurement or recognition inconsistency (so called 'accounting mismatch') that would arise from measuring assets or liabilities or recognising the gains and losses on them on different bases. The Group has not designated any debt instruments as at FVTPL.

Financial assets at FVTPL are measured at fair value at the end of each reporting period, with any fair value gains or losses recognised in profit or loss. The net gain or loss recognised in profit or loss includes any dividend or interest earned on the financial asset and is included in the 'other gains and losses' line item. Fair value is determined in the manner described in Note 22.

***Foreign exchange gains and losses***

The carrying amount of financial assets that are denominated in a foreign currency is determined in that foreign currency and translated at the spot rate at the end of each reporting period. Specifically:

- for financial assets measured at amortised cost that are not part of a designated hedging relationship, exchange differences are recognised in profit or loss in the 'other gains and losses' line item;
- for debt instruments measured at FVTOCI that are not part of a designated hedging relationship, exchange differences on the amortised cost of the debt instrument are recognised in profit or loss. Other exchange differences are recognised in other comprehensive income in the investments revaluation reserve;
- for financial assets measured at FVTPL that are not part of a designated hedging relationship, exchange differences are recognised in profit or loss; and
- for equity instruments measured at FVTOCI, exchange differences are recognised in other comprehensive income in the investments revaluation reserve.

***Impairment of financial assets***

The Group recognises a loss allowance for expected credit losses on investments in debt instruments that are measured at amortised cost or at FVTOCI, lease receivables, trade receivables and contract assets, as well as on financial guarantee contracts. The amount of expected credit losses is updated at each reporting date to reflect changes in credit risk since initial recognition of the respective financial instrument.

The Group always recognises lifetime ECL (expected credit losses) for trade receivables, contract assets and lease receivables. The expected credit losses on these financial assets are estimated using a provision matrix based on the Group's historical credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current as well as the forecast direction of conditions at the reporting date, including time value of money where appropriate.

For all other financial instruments, the Group recognises lifetime ECL when there has been a significant increase in credit risk since initial recognition. However, if the credit risk on the financial instrument has not increased significantly since initial recognition, the Group measures the loss allowance for that financial instrument at an amount equal to 12-month ECL.

Lifetime ECL represents the expected credit losses that will result from all possible default events over the expected life of a financial instrument. In contrast, 12-month ECL represents the portion of lifetime ECL that is expected to result from default events on a financial instrument that are possible within 12 months after the reporting date.
The Group recognises an impairment gain or loss in profit or loss for all financial instruments with a corresponding adjustment to their carrying amount through a loss allowance account, except for investments in debt instruments that are measured at FVTOCI, for which the loss allowance is recognised in other comprehensive income and accumulated in the investment revaluation reserve, and does not reduce the carrying amount of the financial asset in the statement of financial position.

***Derecognition of financial assets***

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

On derecognition of a financial asset measured at amortised cost, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognised in profit or loss. In addition, on derecognition of an investment in a debt instrument classified as at FVTOCI, the cumulative gain or loss previously accumulated in the investments revaluation reserve is reclassified to profit or loss.

In contrast, on derecognition of an investment in an equity instrument which the Group has elected on initial recognition to measure at FVTOCI, the cumulative gain or loss previously accumulated in the investments revaluation reserve is not reclassified to profit or loss, but is transferred to retained earnings.

**Financial liabilities and equity**

***Classification as debt or equity***

Debt and equity instruments are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

***Equity instruments***

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Group are recognised at the proceeds received, net of direct issue costs.

Repurchase of the Company's own equity instruments is recognised and deducted directly in equity. No gain or loss is recognised in profit or loss on the purchase, sale, issue or cancellation of the Company's own equity instruments.

***Financial liabilities***

All financial liabilities are measured subsequently at amortised cost using the effective interest method or at FVTPL. However, financial liabilities that arise when a transfer of a financial asset does not qualify for derecognition or when the continuing involvement approach applies, and financial guarantee contracts issued by the Group, are measured in accordance with the specific accounting policies set out below.

***Financial liabilities at FVTPL***
Financial liabilities are classified as at FVTPL when the financial liability is (i) contingent consideration of an acquirer in a business combination, (ii) held for trading or (iii) designated as at FVTPL.

A financial liability is classified as held for trading if:

- it has been acquired principally for the purpose of repurchasing it in the near term; or
- on initial recognition it is part of a portfolio of identified financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative, except for a derivative that is a financial guarantee contract or a designated and effective hedging instrument.

A financial liability other than a financial liability held for trading or contingent consideration of an acquirer in a business combination may be designated as at FVTPL upon initial recognition if:

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- the financial liability forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or
- it forms part of a contract containing one or more embedded derivatives, and IFRS 9 permits the entire combined contract to be designated as at FVTPL.

Financial liabilities at FVTPL are measured at fair value, with any gains or losses arising on changes in fair value recognised in profit or loss to the extent that they are not part of a designated hedging relationship. The net gain or loss recognised in profit or loss incorporates any interest paid on the financial liability and is included in the profit or loss.

However, for financial liabilities that are designated as at FVTPL, the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is recognised in other comprehensive income, unless the recognition of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. The remaining amount of change in the fair value of liability is recognised in profit or loss. Changes in fair value attributable to a financial liability's credit risk that are recognised in other comprehensive income are not subsequently reclassified to profit or loss; instead, they are transferred to retained earnings upon derecognition of the financial liability.

Gains or losses on financial guarantee contracts issued by the Group that are designated by the Group as at FVTPL are recognised in profit or loss.

Fair value is determined in the manner described in Note 22.

***Financial liabilities measured subsequently at amortised cost***
Financial liabilities that are not (i) contingent consideration of an acquirer in a business combination, (ii) held for trading, or (iii) designated as at FVTPL, are measured subsequently at amortised cost using the effective interest method.

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial liability, or (where appropriate) a shorter period, to the amortised cost of a financial liability.

***Foreign exchange gains and losses***
For financial liabilities that are denominated in a foreign currency and are measured at amortised cost at the end of each reporting period, the foreign exchange gains and losses are determined based on the amortised cost of the instruments. These foreign exchange gains and losses are recognised in the profit or loss for financial liabilities that are not part of a designated hedging relationship. For those which are designated as a hedging instrument for a hedge of foreign currency risk, foreign exchange gains and losses are recognised in other comprehensive income and accumulated in a separate component of equity.

The fair value of financial liabilities denominated in a foreign currency is determined in that foreign currency and translated at the spot rate at the end of the reporting period. For financial liabilities that are measured as at FVTPL, the foreign exchange component forms part of the fair value gains or losses and is recognised in profit or loss for financial liabilities that are not part of a designated hedging relationship.

***Derecognition of financial liabilities***
The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or have expired. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

When the Group exchanges with the existing lender one debt instrument into another one with the substantially different terms, such exchange is accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability. Similarly, the Group accounts for substantial modification of terms of an existing liability or part of it as an extinguishment of the original financial liability and the recognition of a new liability. It is assumed that the terms are substantially different if the discounted present value of the cash flows under the new terms, including any fees paid net of any fees received and discounted using the original effective rate is at least 10 per cent different from the discounted present value of the remaining cash flows of the original financial liability. If the modification is not substantial, the difference between: (i) the carrying amount of the liability before the modification; and (ii) the present value of the cash flows after modification is recognised in profit or loss as the modification gain or loss within other gains and losses.

***Derivative financial instruments***
The Group may enter into a variety of derivative financial instruments to manage its exposure to interest rate and foreign exchange rate risks, including foreign exchange forward contracts, options and interest rate swaps.

Derivatives are recognised initially at fair value at the date a derivative contract is entered into and are subsequently remeasured to their fair value at each reporting date. The resulting gain or loss is recognised in profit or loss immediately unless the derivative is designated and effective as a hedging instrument, in which event the timing of the recognition in profit or loss depends on the nature of the hedge relationship.

A derivative with a positive fair value is recognised as a financial asset whereas a derivative with a negative fair value is recognised as a financial liability. Derivatives are not offset in the financial statements unless the Group has both a legally enforceable right and intention to offset. A derivative is presented as a non-current asset or a non-current liability if the remaining maturity of the instrument is more than 12 months and it is not due to be realised or settled within 12 months. Other derivatives are presented as current assets or current liabilities.

**4.7 Impairment of assets (other than exploration and evaluation assets)**
***Non-financial assets***
The carrying amounts of the Group's non-financial assets, other than deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the "cash-generating unit" or "CGU").

The Group's corporate assets do not generate separate cash inflows. If there is an indication that a corporate asset may be impaired, then the recoverable amount is determined for the CGU to which the corporate asset belongs.

An impairment loss is recognised if the carrying amount of an asset or its CGU exceeds its estimated recoverable amount. Impairment losses are recognised in profit or loss. Impairment losses recognised in respect of CGUs are allocated to the carrying amounts of the assets in the unit (group of units) on a pro rata basis.

Impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

**4.8 Goods and Services Tax (GST)**

Revenues, expenses and assets are recognised net of the amount of goods and services tax ("GST"), except where the amount of GST incurred is not recoverable from the taxation authority. In these circumstances, the GST is recognised as part of the cost of acquisition of the asset or as part of an item of the expense.

Receivables and payables are stated with the amount of GST included. GST incurred is claimed from the taxation authority when a valid tax invoice is provided. The net amount of GST recoverable from, or payable to, the ATO is included as a current asset or liability in the statement of financial position.

Cash flows are included in the statement of cash flows on a gross basis. The GST components of cash flows arising from investing and financing activities which are recoverable from, or payable to, the taxation authority are classified as operating cash flows.

**4.9 Trade and other payables**

These amounts represent liabilities for goods and services provided to the Group prior to the end of the financial year and which are unpaid. The amounts are unsecured and are usually paid within 30 days of recognition.

**4.10 Employee entitlements**

A liability is recognised for benefits accruing to employees in respect of wages and salaries, annual leave and sick leave in the period the related service is rendered at the undiscounted amount of the benefits expected to be paid in exchange for that service.

Liabilities recognised in respect of short-term employee benefits are measured at the undiscounted amount of the benefits expected to be paid in exchange for the related service.

Liabilities recognised in respect of other long-term employee benefits are measured at the present value of the estimated future cash outflows expected to be made by the Group in respect of services provided by employees up to the reporting date.

**4.11 Provisions**

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

***Provision for site restoration and rehabilitation***

In accordance with the Group's environmental policy and applicable legal requirements, a provision for site restoration and rehabilitation in respect of disturbed land is recognised when the land is disturbed.

The provision is the best estimate of the present value of the expenditure required to settle the restoration and rehabilitation obligation at the reporting date, based on current legal requirements and technology. Future restoration and rehabilitation costs are reviewed at least annually and any changes are reflected in the present value of the restoration and rehabilitation provision at the end of the reporting period. The unwinding of the effect of discounting on the provision is recognised as a finance cost.

**4.12 Contributed equity**

Issued capital is recognised as the fair value of the consideration received by the Company. Any transaction costs arising on the issue of ordinary shares are recognised directly in equity as a reduction of the share proceeds received.

**4.13 Leases**

*The Group as a lessee*

The Group assesses whether a contract is or contains a lease, at inception of the contract. The Group recognises a right-of-use (ROU) asset and a corresponding lease liability with respect to all lease arrangements in which it is the lessee, except for short-term leases (defined as leases with a lease term of 12 months or less) and leases of low value assets (such as tablets and personal computers, small items of office furniture and telephones). For these leases, the Group recognises the lease payments as an operating expense on a straight-line basis over the term of the lease unless another systematic basis is more representative of the time pattern in which economic benefits from the leased assets are consumed.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted by using the rate implicit in the lease. If this rate cannot be readily determined, the lessee uses its incremental borrowing rate.

Lease payments included in the measurement of the lease liability comprise:

- Fixed lease payments (including in-substance fixed payments), less any lease incentives receivable;
- Variable lease payments that depend on an index or rate, initially measured using the index or rate at the commencement date;
- The amount expected to be payable by the lessee under residual value guarantees;
- The exercise price of purchase options, if the lessee is reasonably certain to exercise the options; and
- Payments of penalties for terminating the lease, if the lease term reflects the exercise of an option to terminate the lease.

The lease liability is presented as a separate line in the consolidated statement of financial position.

The lease liability is subsequently measured by increasing the carrying amount to reflect interest on the lease liability (using the effective interest method) and by reducing the carrying amount to reflect the lease payments made.

The Group remeasures the lease liability (and makes a corresponding adjustment to the related right-of-use asset) whenever:

- The lease term has changed or there is a significant event or change in circumstances resulting in a change in the assessment of exercise of a purchase option, in which case the lease liability is remeasured by discounting the revised lease payments using a revised discount rate.
- The lease payments change due to changes in an index or rate or a change in expected payment under a guaranteed residual value, in which cases the lease liability is remeasured by discounting the revised lease payments using an unchanged discount rate (unless the lease payments change is due to a change in a floating interest rate, in which case a revised discount rate is used).
- A lease contract is modified and the lease modification is not accounted for as a separate lease, in which case the lease liability is remeasured based on the lease term of the modified lease by discounting the revised lease payments using a revised discount rate at the effective date of the modification.

The Group did not make any such adjustments during the periods presented.

The ROU assets comprise the initial measurement of the corresponding lease liability, lease payments made at or before the commencement day, less any lease incentives received and any initial direct costs. They are subsequently measured at cost less accumulated depreciation and impairment losses.

Whenever the Group incurs an obligation for costs to dismantle and remove a leased asset, restore the site on which it is located or restore the underlying asset to the condition required by the terms and conditions of the lease, a provision is recognised and measured under IAS 37. To the extent that the costs relate to a right-of-use asset, the costs are included in the related right-of-use asset, unless those costs are incurred to produce inventories.

ROU assets are depreciated over the shorter period of lease term and useful life of the underlying asset. If a lease transfers ownership of the underlying asset or the cost of the ROU asset reflects that the Group expects to exercise a purchase option, the related ROU asset is depreciated over the useful life of the underlying asset. The depreciation starts at the commencement date of the lease.

The ROU assets are presented as a separate line in the consolidated statement of financial position.
The Group applies IAS 36 to determine whether an ROU asset is impaired and accounts for any identified impairment loss as described in the 'Plant, equipment and motor vehicles' policy.
Variable rents that do not depend on an index or rate are not included in the measurement of the lease liability and the ROU asset. The related payments are recognised as an expense in the period in which the event or condition that triggers those payments occurs and are included in 'Other expenses' in profit or loss.

As a practical expedient, IFRS 16 permits a lessee not to separate non-lease components, and instead account for any lease and associated non-lease components as a single arrangement. The Group has not used this practical expedient. For contracts that contain a lease component and one or more additional lease or non-lease components, the Group allocates the consideration in the contract to each lease component on the basis of the relative stand-alone price of the lease component and the aggregate stand-alone price of the non-lease components.

**4.14 Earnings per share**
Basic earnings per share ("EPS") are calculated based upon the net loss divided by the weighted average number of shares. Diluted EPS are calculated as the net loss divided by the weighted average number of shares and dilutive potential shares.

**4.15 Share-based payment transactions**
The Group provides benefits to employees (including Directors) of the Group in the form of share-based payment transactions, whereby employees render services in exchange for shares or rights over shares ("Equity–settled transactions").

The Group has in place an Equity Incentive Plan to provide these benefits to KMP and employees.

The cost of these equity-settled transactions is measured by reference to fair value at the date at which they are granted. For share options the fair value is determined by using the Black-Scholes pricing model. For performance rights the fair value is determined with reference to the close price of the Company's securities on the date the rights are granted.

In valuing equity-settled transactions, no account is taken of any performance conditions, other than conditions linked to the price of the shares of Essential Metals Limited and a peer group of companies ("market conditions").

The cost of equity settled securities is recognised, together with a corresponding increase in equity, over the period in which the performance conditions are fulfilled, ending on the date on which the relevant employees become fully entitled to the award ("vesting date"). At the end of each period, the entity revises its estimate of the number of options that are expected to vest based on the non-vesting market and service conditions. It recognises the impact of the revision to original estimates, if any, in the profit or loss and comprehensive income statement with a corresponding adjustment to equity.

Where the Group acquires some form of interest in an exploration tenement or an exploration area of interest and the consideration comprises share-based payment transactions, the fair value of the equity instruments granted is measured at grant date. The cost of equity securities is recognised within capitalised mineral exploration and evaluation expenditure, together with a corresponding increase in equity.

**4.16 Foreign currencies**

In preparing the financial statements of the Group entities, transactions in currencies other than the entity's functional currency (foreign currencies) are recognised at the rates of exchange prevailing on the dates of the transactions. At each reporting date, monetary assets and liabilities that are denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are translated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences are recognised in profit or loss in the period in which they arise except for:

- exchange differences on foreign currency borrowings relating to assets under construction for future productive use, which are included in the cost of those assets when they are regarded as an adjustment to interest costs on those foreign currency borrowings;
- exchange differences on transactions entered into to hedge certain foreign currency risks (see below under financial instruments/hedge accounting); and
- exchange differences on monetary items receivable from or payable to a foreign operation for which settlement is neither planned nor likely to occur in the foreseeable future (therefore forming part of the net investment in the foreign operation), which are recognised initially in other comprehensive income and reclassified from equity to profit or loss on disposal or partial disposal of the net investment.

For the purpose of presenting consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated at exchange rates prevailing on the reporting date. Income and expense items are translated at the average exchange rates for the period, unless exchange rates fluctuate significantly during that period, in which case the exchange rates at the date of transactions are used. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in a foreign exchange translation reserve (attributed to non-controlling interests as appropriate).

**4.17 Contingencies**

By their nature, contingencies will only be resolved when one or more future events occur or fail to occur. The assessment of contingencies inherently involves the exercise of significant judgment and estimates of the outcome of future events.

**4.18 Government grants**

Government grants (such as JobKeeper and Cash Boost) are not recognised until there is reasonable assurance that the Group will comply with the conditions attaching to them and that the grants will be received.

Government grants are recognised in profit or loss on a systematic basis over the periods in which the Group recognises as expenses the related costs for which the grants are intended to compensate. Specifically, government grants whose primary condition is that the Group should purchase, construct or otherwise acquire non-current assets (including property, plant and equipment and exploration and evaluation assets) are recognised as deferred income in the consolidated statement of financial position and transferred to profit or loss on a systematic and rational basis over the useful lives of the related assets. Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Group with no future related costs are recognised in profit or loss in the period in which they become receivable.

Exploration related government grants are offset against exploration expenditure incurred and capitalised.

**4.19 Interest in joint arrangements**

Joint arrangements are those arrangements in which the Group has joint control, established by contractual agreement and requiring unanimous consent for strategic, financial and operating decisions. Joint arrangements are classified as either joint operations or a joint venture, based on the contractual rights and obligations between the parties to the arrangement.

Joint operations: In a joint operation the Group has rights to the assets and obligations for the liabilities relating to the arrangement. This includes situations in which the parties benefit from the joint activity through the sharing of output, rather than by receiving a share of results of trading. Interests in joint operations are reported in the Financial Statements by including the Group's proportionate share of assets employed in the arrangement, the share of liabilities incurred in relation to the arrangement and the share of any revenue or expenses earned or incurred.

Joint ventures: A joint venture is a joint arrangement in which the parties that share joint control have rights to the net assets of the arrangement. A separate vehicle, not the parties, will have the rights to the assets and obligations to the liabilities relating to the arrangement. More than an insignificant amount of output is sold to third parties, which indicates the joint venture is not dependent on the parties to the arrangement for funding. Joint ventures are accounted for using the equity accounting method.

Details relating to the Group's interests in mineral exploration projects which are subject to joint arrangements are detailed in Note 23(b).

**5. OPERATING SEGMENTS**

**(a) Description of segments**

Management has determined the operating segments based on the reports reviewed by the chief operating decision maker that are used to make strategic decisions. For the purposes of segment reporting the chief operating decision maker has been determined as the Board of Directors.

Based upon the operations of the Group during the current financial period, the Board has identified two operating segments; being operations and corporate/unallocated expenditure. Assets are allocated to a segment if its utilised by that segment. During the current period the operations and exploration segments reported in the prior year were combined into one operations reporting segment for internal reporting to the chief operating decision maker.

**(b) Measurement of segment information**

All information presented above is measured in a matter consistent with that in the financial statements.

**(c) Segment information provided to the Board of Directors**

The segment information provided to the Board of Directors for the reportable segments is as follows:

| | Operations[1] | Unallocated | Total |
|---|---|---|---|
| **Year ended 30 June 2022** | **$'000** | **$'000** | **$'000** |
| Revenue | - | - | - |
| Loss before tax | (117) | (1,290) | (1,407) |
| Income tax | - | - | - |
| Loss after tax | (117) | (1,290) | (1,407) |
| Segment assets | 16,900 | 11,321 | 28,221 |
| Segment liabilities | 1,018 | 920 | 1,938 |
| | **Operations** | **Unallocated** | **Total** |
| **Year ended 30 June 2021** | **$'000** | **$'000** | **$'000** |
| Revenue | 106[2] | - | 106 |
| Loss before tax | (480) | (903) | (1,383) |
| Income tax | - | - | - |
| Loss after tax | (480) | (903) | (1,383) |
| Segment assets | 15,589 | 5,971 | 21,560 |
| Segment liabilities | 837 | 320 | 1,157 |

**Notes:**

[1] – The Operations segment incorporated the Exploration segment during the current reporting period.

[2] – Revenue relates to the sale of alluvial gold provided to the Company from third party prospecting activities.

The revenue reported above represents revenue generated from external customers. There was no inter-segment revenue during the year.

## 6. NON-CURRENT ASSET DISPOSAL

On 4 January 2022 the Company completed the sale of wholly owned Canadian subsidiary Pioneer Canada Lithium Corp. to a subsidiary of Critical Resources Limited (ASX:CRR) for the following consideration:

- $750,000 cash payment ($375,000 withheld pending an income tax assessment).
- 34,000,000 shares in Critical Resources Limited.
- Milestone payments:
  - $750,000 cash payment following the definition of a Mineral Resource Estimate (as defined in the JORC Code 2012) for the Mavis Lake Lithium Project with a volume of not less than 5.0 million tonnes containing not less than 50,000 tonnes of $Li_2O$ using a cut-off grade of not less than 0.4% $Li_2O$.
  - $750,000 cash payment following the definition of a Mineral Resource Estimate (as defined in the JORC Code 2012) for the Mavis Lake Lithium Project with a volume of not less than 10.0 million tonnes containing not less than 100,000 tonnes of $Li_2O$ using a cut-off grade of not less than 0.4% $Li_2O$.

The Group announced on 25 October 2021 that this subsidiary would be sold to take advantage of the strong sentiment in the lithium sector to divest a non-core, early-stage exploration asset located in Canada, consistent with its focus on its Western Australian lithium and gold projects.

Details of the disposal:

| | **2022** | 2021 |
|---|---|---|
| | **$'000** | $'000 |
| Total sale consideration | **2,154** | - |
| Carrying amount of net assets disposed | **(1,774)** | - |
| Derecognition of foreign currency reserve | **91** | - |
| Disposal costs (including income tax provision) | **(471)** | - |
| Loss on disposal before income tax | **-** | - |
| **Loss on disposal after income tax** | **-** | - |

The disposal asset was disclosed within 'Operations' segment assets within the current reporting period (2021: 'Exploration' segment assets). Refer to Note 5 for further details.

### 7. REVENUE

| | **2022** | 2021 |
|---|---|---|
| | **$'000** | $'000 |
| Other revenue – Sale of alluvial gold[1] | - | 106 |
| **Total revenue** | - | 106 |

**Note:**
[1] Sale of alluvial gold provided to the Company from third party prospecting activities.

### 8. OTHER INCOME

| | **2022** | 2021 |
|---|---|---|
| | **$'000** | $'000 |
| Blair-Golden Ridge Joint Venture exclusivity, option exercise & other contractual fees | **400** | 125 |
| Subsidiary sale exclusivity and option exercise fees | **100** | - |
| Other income | **26** | 7 |
| Income received for the cancellation of tenement applications[2] | - | 200 |
| Listed shares received as consideration for royalty sale | - | 200 |
| Government grants[1] | - | 167 |
| Reallocation of JobKeeper government grants to capitalised exploration expenditure | - | (132) |
| **Total other income** | **526** | 567 |

**Notes:**
[1] No JobKeeper government grants were recognised during the current reporting period (2021: $138,000). Nil (2021: $131,700) in JobKeeper payments was offset during the current reporting period against the capitalised exploration expenditure to which it related with the balance classified as other income in line with the Group's accounting policies.
[2] Received as compensation for withdrawing contested tenement applications.

## 9. EARNINGS PER SHARE

The following reflects the earnings and share data used in the calculations of basic and diluted earnings per share for current and comparative reporting periods:

| | 2022 | 2021 |
|---|---|---|
| | $'000 | $'000 |
| Earnings used in calculating basic and diluted earnings per share | (1,407) | (1,383) |
| Weighted average number of ordinary shares used in calculating basic earnings per share | 237,876,807 | 179,237,995 |
| **Basic and diluted earnings per share – cents per share** | **(0.59c)** | (0.77c) |

## 10. EMPLOYEE BENEFITS EXPENSE

| | 2022 | 2021 |
|---|---|---|
| | $'000 | $'000 |
| Salaries, wages and superannuation | 1,251 | 1,176 |
| Salaries and wages capitalised to E&E asset | (670) | (663) |
| Director fees and charges[1] | 202 | 197 |
| Termination benefits | - | 28 |
| **Total employee benefits expense** | **783** | 738 |

**Note:**
[1] – Refer Note 27 for details of KMP remuneration.

## 11. INCOME TAX EXPENSE

No income tax is payable by the Group as it has incurred losses for income tax purposes for the year, so current tax, deferred tax and tax expense is nil (2021 - Nil). Further deferred tax assets and liabilities will be settled net wherever possible and are therefore offset.

| | 2022 | 2021 |
|---|---|---|
| | $'000 | $'000 |
| **INCOME TAX EXPENSE** | | |
| **(a) Tax expense** | | |
| Current tax expense | - | - |
| Deferred tax expense | - | - |
| **Total income tax expense per profit or loss and other comprehensive income** | - | - |
| **(b) Numerical reconciliation between tax expense and pre-tax net profit** | | |
| Net (loss)/profit before tax | **(1,407)** | (1,383) |
| Tax (benefit)/expense at the applicable corporate tax rate of 25% (2021: 26%) | **(352)** | (360) |
| Increase in income tax due to tax effect of: | | |
| Share based payment expense | **43** | 28 |
| Non-deductible expenditure | **449** | 3 |
| Current year tax losses not recognised | - | 366 |
| Decrease in income tax expense due to: | | |
| Non-assessable income | - | (13) |
| Unused tax losses and temp differences recognised | **(101)** | - |
| Deductible capital raising costs | **(40)** | (24) |
| **Income tax expense attributable to entity** | - | - |
| | | |
| **DEFERRED TAX ASSETS AND LIABILITIES** | | |
| **(c) Recognised deferred tax assets and liabilities at 25% (2021: 26%)** | | |
| **Deferred tax assets** | | |
| Employee provisions | **10** | 15 |
| Other provisions and accruals | **8** | 11 |
| Rehabilitation assets and liabilities | **174** | 174 |
| Plant and equipment | **(24)** | (37) |
| ROU assets | - | 2 |
| Tax losses | **3,833** | 3,103 |
| | **4,002** | 3,268 |
| Set-off of deferred tax liabilities | **(4,002)** | (3,268) |
| Net deferred tax assets | - | - |
| **Deferred tax liabilities** | | |
| Exploration and mine properties | **(3,998)** | (3,268) |
| Unearned income | **(4)** | - |
| Other deferred tax liabilities | - | - |
| Gross deferred tax liabilities | **(4,002)** | (3,268) |
| Set-off of deferred tax assets | **4,002** | 3,268 |
| Net deferred tax liabilities | - | - |
| | | |
| **(d) Unused tax losses and temporary differences for which no deferred tax asset has been recognised at 25% (2021: 26%)** | | |
| Deductible temporary differences | **125** | 67 |
| Tax revenue losses | **7,992** | 8,093 |
| Tax capital losses | **595** | 595 |
| Total unrecognised deferred tax assets | **8,712** | 8,755 |

## 12. NOTES TO THE STATEMENT OF CASH FLOWS

### (a) Cash and cash equivalents

Cash at the end of the financial year as shown in the statements of cash flows is reconciled to the related items in the statement of financial position as follows:

| | 2022 | 2021 |
|---|---|---|
| | $'000 | $'000 |
| Cash on hand and at bank | **5,527** | 2,466 |
| Term deposits | **5,000** | 3,000 |
| **Total cash and cash equivalents** | **10,527** | 5,466 |

### (b) Reconciliation of the (loss)/profit from ordinary activities after income tax to the net cash flows used in operating activities

| | 2022 | 2021 |
|---|---|---|
| | $'000 | $'000 |
| **(Loss)/profit from ordinary activities after income tax** | **(1,407)** | (1,383) |
| *Non-cash items:* | | |
| Revaluation of listed investments | **(646)** | - |
| Depreciation | **46** | 106 |
| Unrealised foreign exchange (gain)/loss | **1** | 23 |
| Exploration written off | **113** | 477 |
| Share-based payments expense | **165** | 107 |
| Other non-cash transactions | **43** | (140) |
| | | |
| *Change in operating assets and liabilities:* | | |
| Decrease/(increase) in prepayments | **(80)** | (23) |
| Decrease/(increase) in receivables | **(428)** | 381 |
| (Decrease)/increase in current payables | **361** | (428) |
| (Decrease)/increase in provisions | **362** | 3 |
| **Net cash (outflows) used in/inflows received from operating activities** | **(1,470)** | (877) |

### (c) Reconciliation of liabilities arising from financing activities

| | 2022 | 2021 |
|---|---|---|
| | $'000 | $'000 |
| **Opening lease liabilities** | **179** | 289 |
| Financing cash flows | **(50)** | (81) |
| Non-cash changes[1] | **124** | (29) |
| **Balance at 30 June** | **253** | 179 |

**Note:**

[1] - Non-cash changes relate to the termination of previous leases and take up of new leases.

**(d) Stand-by credit facilities**
As at the current reporting date the Group had a business credit card facility available totalling $30,000 (2021: $30,000) of which $8,000 (2021: $12,000) was utilised.

## 13. INVESTMENTS

**(a) Classification of financial assets at fair value through other comprehensive income**
Financial assets at fair value through other comprehensive income (FVOCI) comprise of equity securities which are not held for trading, and which the Group has irrevocably elected at initial recognition to recognise in this category. These are strategic investments and the Group considers this classification to be more relevant.

The following table shows the movement in equity instruments at FVOCI during the current and previous reporting periods:

| | **2022** | 2021 |
|---|---|---|
| | **$'000** | $'000 |
| **(b) Equity Investments at fair value through other comprehensive income** | | |
| Opening balance | **273** | 568 |
| Acquisition of equity investments[1] | **1,394** | 200 |
| Changes in fair values recognised in other comprehensive income | **75** | (172) |
| Changes in fair values recognised directly in retained losses | **1,518** | - |
| Disposal of equity investments | **(3,147)** | (323) |
| **Current investments – Equity instruments** | **113** | 273 |

**Note:**
[1] - During the year ended 30 June 2022, the Group completed the sale of its wholly owned Canadian subsidiary Pioneer Canada Lithium Corp to Critical Resources Limited (ASX: CRR) for $750,000 in cash and $1,394,000 CRR listed shares as consideration, being 34 million CRR shares valued at $0.041 per share. In line with the Group's accounting policies the CRR shares were valued at fair value through other comprehensive income.

## 14. EXPLORATION AND EVALUATION EXPENDITURE

| | **2022** | 2021 |
|---|---|---|
| | **$'000** | $'000 |
| **Non-current – In the exploration and evaluation phase** | | |
| **Opening balance** | **15,430** | 13,666 |
| Expenditure for the period[1] | **3,085** | 2,231 |
| Foreign currency translation – Mavis Lake | - | 10 |
| Sale of subsidiary | **(1,675)** | - |
| Exploration expenditure written off | **(113)** | (477) |
| **Closing balance at 30 June** | **16,727** | 15,430 |

**Note:**
[1] – Includes capitalised plant, equipment and motor vehicle depreciation expense.

The ongoing carrying value of the Group's interest in exploration and evaluation expenditure is dependent upon the continuance of the Group's rights to tenure of the areas of interest and the results of future exploration and the recoupment of costs through successful development and exploitation of the areas of interest, or alternatively, by their sale.

The Group's exploration properties may be subjected to claim(s) under native title, or contain sacred sites, or sites of significance to indigenous people. As a result, exploration properties or areas within the tenements may be subject to exploration restrictions, mining restrictions and/or claims for compensation. At this time, it is not possible to quantify whether such claims exist, or the quantum of such claims.

Exploration write-downs totalled $1,775,000 (2021: $477,000) which related primarily to the write-down of costs pertaining to tenements relinquished through the sale of wholly owned Canadian subsidiary Pioneer Canada Lithium Corp. during the year.

### 15. TRADE AND OTHER PAYABLES

| | **2022** | 2021 |
|---|---|---|
| | **$'000** | $'000 |
| **Current (Unsecured)** | | |
| Trade creditors | **373** | 83 |
| Other creditors and accruals | **191** | 140 |
| **Total trade and other payables** | **564** | 223 |

Amounts shown as current are expected to be settled within 12 months.

Average payment terms are 30 days from invoice date. There was no interest charged from the late payment of trade and other payables in the current or prior reporting periods.

### 16. PROVISIONS

| | **2022** | 2021 |
|---|---|---|
| | **$'000** | $'000 |
| **Current** | | |
| Employee entitlements[1] | **40** | 59 |
| Rehabilitation provision[2] | **696** | 696 |
| Canadian income tax provision[3] | **385** | - |
| **Total current provisions** | **1,121** | 755 |

**Notes:**

**1** - The current provision for long service leave includes all unconditional entitlements where employees have completed the required period of service and also those where employees are entitled to pro-rata payments in certain circumstances. As the related employee has completed the required period of service the entire amount is presented as a current provision.

**2** - The provision for rehabilitation of the Sinclair Mine Site is an estimation of work to be carried out such as earthmoving, removal of facilities and restoring of affected areas. The provision represents the best estimate of the present value of the expenditure required to settle the restoration obligation at the reporting date. Future restoration costs will be reviewed annually and any changes in the estimate are reflected in the present value of the restoration provision at each reporting date. The provision for rehabilitation remains current and has not materially changed in value from the prior reporting period due to the Sinclair Mine remaining in care and maintenance under a Mine Closure Plan that is due to be reviewed in the financial year ended 30 June 2023.

3 – The Canadian income tax provision allows for any potential income tax payable by the Group to the Canadian Revenue Authority (CRA) in relation to the sale of wholly owned subsidiary Pioneer Canada Lithium Corp (PCLC) on 4 January 2022. As at the date of this Report the CRA was unable to provide the Group with the expected amount or timing of any income tax payable. The provision has been recorded using the full A$385,000 receivable recognised by the Group at the end of the current reporting period, being the balance of the sale proceeds held in trust by the purchaser's legal counsel until such time that the CRA can complete their assessment of the income tax payable (if any) on the sale of PCLC.

## 17. CONTRIBUTED EQUITY

**(a) Ordinary shares on issue – fully paid**

| | **2022** | 2021 | **2022** | 2021 |
|---|---|---|---|---|
| | **Shares** | Shares | **$'000** | $'000 |
| **Total contributed equity** | **246,487,425** | 200,817,300 | **50,150** | 44,538 |

**Ordinary shares**

Ordinary shares have the right to receive dividends as declared and, in the event of winding up of the Company, to participate in the proceeds from the sale of all surplus assets in proportion to the number of and amounts paid up on shares held. Changes to the then Corporations Law abolished the authorised capital and par value concept in relation to share capital from 1 July 1998. Therefore, the company does not have a limited amount of authorised capital and issued shares do not have a par value. Ordinary shares have no par value and entitle their holder to one vote per share, either in person or by proxy, at a meeting of the Company.

On 4 August 2021 the Company announced a placement of new fully paid ordinary shares to sophisticated and professional investors through the issue of 40 million new fully paid ordinary shares at an issue price of $0.125 per new share for gross proceeds of $5 million.

**Equity incentives**
Information relating to equity incentives including details of equity incentives exercised and lapsed during the financial year and equity incentives outstanding at the end of the financial year, is set out in Note 19.

**(b) Share movements during the current and prior reporting periods**

| | Date | Number of shares | Issue price | $'000 |
|---|---|---|---|---|
| **Opening Balance 1 July 2020** | | **1,508,758,765** | | **41,184** |
| 10:1 Share Consolidation | 17 Jul 2020 | (1,357,882,338) | - | - |
| Placement share issue | 23 Nov 2020 | 24,103,288 | $0.085 | 2,049 |
| Placement share issue costs | | - | - | (166) |
| Placement option valuation | | - | - | (337) |
| Share Purchase Plan share issue | 16 Dec 2020 | 25,176,342 | $0.085 | 2,140 |
| Share Purchase Plan share issue costs | | - | - | (71) |
| Share Purchase Plan option valuation | | - | - | (314) |
| Contractor share issue | 14 Jan 2021 | 661,243 | - | 53 |
| **Closing balance at 30 June 2021** | | **200,817,300** | | **44,538** |
| Placement share issue – Tranche 1 | 11 Aug 2021 | 36,780,000 | $0.125 | 4,598 |
| ESSO option exercise | 20 Aug 2021 | 22,674 | $0.150 | 3 |
| Placement share issue - Directors | 22 Sep 2021 | 1,200,000 | $0.125 | 150 |
| Placement share issue – Tranche 2 | 22 Sep 2021 | 2,020,000 | $0.125 | 252 |
| Placement share issue costs | | - | - | (445) |
| Performance rights conversion | 24 Nov 2021 | 100,000 | - | - |
| ESSO option exercise | 24 Nov 2021 | 600,000 | $0.150 | 90 |
| ESSO option exercise | 24 Dec 2021 | 5,882 | $0.150 | 1 |
| ESSO option exercise | 25 Jan 2022 | 1,096,412 | $0.150 | 164 |
| Unlisted broker option exercise | 25 Jan 2022 | 450,000 | $0.200 | 90 |
| ESSO option exercise | 4 Feb 2022 | 104,704 | $0.150 | 16 |
| Unlisted broker option exercise | 4 Feb 2022 | 1,050,000 | $0.200 | 210 |
| ESSO option exercise | 3 Mar 2022 | 11,764 | $0.150 | 2 |
| ESSO option exercise | 1 Apr 2022 | 84,624 | $0.150 | 13 |
| ESSO option exercise | 29 Apr 2022 | 1,259,409 | $0.150 | 189 |
| ESSO option exercise | 6 May 2022 | 29,411 | $0.150 | 4 |
| Unlisted option exercise | 6 May 2022 | 180,556 | $0.450 | 81 |
| ESSO option exercise | 6 May 2022 | 637,000 | $0.150 | 96 |
| ESSO option exercise | 16 Jun 2022 | 37,689 | $0.150 | 6 |
| Option exercise costs | | - | - | (8) |
| ESSO option exercise valuation reallocation | | | | 100 |
| **Closing balance at 30 June 2022** | | **246,487,425** | | **50,150** |

## 18. EQUITY INCENTIVES

Set out below are movements in equity incentives in the current and prior reporting periods:

| 2022 | Opening balance | Granted | Exercised/ converted | Expired/ cancelled | Closing balance |
|---|---|---|---|---|---|
| **Unlisted options** | | | | | |
| Exercisable at 35 cents on or before 30/11/21 | 894,446 | - | - | (894,446) | - |
| Exercisable at 45 cents on or before 30/11/22 | 894,446 | - | (180,556) | - | 713,890 |
| Exercisable at 20 cents on or before 10/08/23 | - | 2,000,000 | (1,500,000) | - | 500,000 |
| Exercisable at 25 cents on or before 31/01/24 | 500,000 | - | - | - | 500,000 |
| Exercisable at 35 cents on or before 31/01/24 | 500,000 | - | - | - | 500,000 |
| Exercisable at 45 cents on or before 31/01/24 | 500,000 | - | - | - | 500,000 |
| Exercisable at 25 cents on or before 30/06/24 | 533,334 | - | - | - | 533,334 |
| Exercisable at 35 cents on or before 30/06/24 | 533,334 | - | - | - | 533,334 |
| Exercisable at 45 cents on or before 30/06/24 | 533,334 | - | - | - | 533,334 |
| Exercisable at 12.5 cents on or before 30/09/24 | 200,000 | - | - | - | 200,000 |
| Exercisable at 17.5 cents on or before 30/09/24 | 200,000 | - | - | - | 200,000 |
| Exercisable at 22.5 cents on or before 30/09/24 | 200,000 | - | - | - | 200,000 |
| **Listed options** | | | | | |
| Exercisable at 15 cents on or before 30/11/22 | 24,610,298 | - | (3,889,569) | - | 20,720,729 |
| **Total options** | **30,099,192** | **2,000,000** | **(5,570,125)** | **(894,446)** | **25,634,621** |
| | | | | | |
| **Performance rights** | | | | | |
| Exercisable on or before 31/12/23 (vested) | 100,000 | - | (100,000) | - | - |
| Exercisable on or before 31/01/24 (unvested) | 500,000 | - | - | - | 500,000 |
| Exercisable on or before 30/06/24 (unvested) | 1,653,378 | - | - | (507,768) | 1,145,610 |
| Exercisable on or before 30/06/25 (unvested) | - | 2,067,602 | - | - | 2,067,602 |
| **Total performance rights** | **2,253,378** | **2,067,602** | **(100,000)** | **(507,768)** | **3,713,212** |
| | | | | | |
| **Total equity instruments** | **32,352,570** | **4,067,602** | **5,670,125** | **(1,402,214)** | **29,347,833** |

| 2021 | Opening balance | Granted | Exercised/ converted | Expired/ cancelled | Closing balance |
|---|---|---|---|---|---|
| **Unlisted options** | | | | | |
| Exercisable at 26 cents on or before 27/10/20 | 223,334 | - | - | (223,334) | - |
| Exercisable at 50 cents on or before 27/10/20 | 223,334 | - | - | (223,334) | - |
| Exercisable at 75 cents on or before 27/10/20 | 223,334 | - | - | (223,334) | - |
| Exercisable at 35 cents on or before 30/11/21 | 1,200,002 | - | - | (305,556) | 894,446 |
| Exercisable at 45 cents on or before 30/11/22 | 1,200,002 | - | - | (305,556) | 894,446 |
| Exercisable at 25 cents on or before 31/01/24 | 500,000 | - | - | - | 500,000 |
| Exercisable at 35 cents on or before 31/01/24 | 500,000 | - | - | - | 500,000 |
| Exercisable at 45 cents on or before 31/01/24 | 500,000 | - | - | - | 500,000 |
| Exercisable at 25 cents on or before 30/06/24 | - | 533,334 | - | - | 533,334 |
| Exercisable at 35 cents on or before 30/06/24 | - | 533,334 | - | - | 533,334 |
| Exercisable at 45 cents on or before 30/06/24 | - | 533,334 | - | - | 533,334 |
| Exercisable at 12.5 cents on or before 30/09/24 | - | 200,000 | - | - | 200,000 |
| Exercisable at 17.5 cents on or before 30/09/24 | - | 200,000 | - | - | 200,000 |
| Exercisable at 22.5 cents on or before 30/09/24 | - | 200,000 | - | - | 200,000 |
| **Listed options** | | | | | |
| Exercisable at 15 cents on or before 30/11/22 | - | 24,610,298 | - | - | 24,610,298 |
| **Total options** | **4,570,006** | **26,810,300** | **-** | **(1,281,114)** | **30,099,192** |
| | | | | | |
| **Performance rights** | | | | | |
| Exercisable on or before 25/09/24 (unvested) | 819,548 | - | - | (819,548) | - |
| Exercisable on or before 31/01/24 (unvested) | 500,000 | - | - | - | 500,000 |
| Exercisable on or before 31/12/23 (vested) | 100,000 | - | - | - | 100,000 |
| Exercisable on or before 30/06/24 (unvested) | - | 1,653,378 | - | - | 1,653,378 |
| **Total performance rights** | **1,419,548** | **1,653,378** | **-** | **(819,548)** | **2,253,378** |
| | | | | | |
| **Total equity instruments** | **5,989,554** | **28,463,678** | **-** | **(2,100,662)** | **32,352,570** |

## 19. SHARE-BASED PAYMENTS

### (a) Equity Incentive Plan

The establishment of the Group's Equity Incentive Plan ("the Plan") was approved by ordinary resolution at the Annual General Meeting of shareholders of the Company held on 29 November 2011. All eligible Directors, executive officers, employees and consultants of the Group who have been continuously employed by the Group are eligible to participate in the Plan. The Plan was last approved by Shareholders on 15 December 2020.

**Options**

The Plan allows the Company to issue options for no consideration to eligible persons. The options can be granted free of charge and are exercisable at a fixed price calculated in accordance with the Plan. Options issued under the Plan may have a vesting period prior to exercise, except under certain circumstances whereby options may be capable of exercise prior to the expiry of the vesting period. All options refer to options over ordinary shares of Essential Metals Limited, which are exercisable on a one for one basis.

**Performance Rights**

Performance rights are granted for no consideration and the term of the performance rights are determined by the Board in its absolute discretion but will ordinarily have a three-year term up to a maximum of five years. Performance rights are subject to lapsing if performance conditions are not met by the relevant measurement date or expiry date (if no other measurement date is specified) or if employment is terminated. There is no ability to re-test performance under the LTIP after the performance period. The fair value of performance rights has been calculated at the grant date and allocated to each reporting period evenly over the period from grant date to vesting date. The value disclosed is the portion of fair value of the rights allocated to this reporting period.

**(b) Unlisted share options over unissued shares**

The following table illustrates the number and weighted average exercise prices of and movements in unlisted share options (on a post-consolidation basis) during the current and prior financial years:

| | 2022 | | 2021 | |
|---|---|---|---|---|
| | Number | Weighted average exercise price | Number | Weighted average exercise price |
| Outstanding at the beginning of the year | 30,099,192 | $0.19 | 4,570,006 | $0.40 |
| Granted during the year | 2,000,000 | $0.20 | 26,810,300 | $0.16 |
| Exercised during the year | (5,570,125) | $0.17 | - | - |
| Expired/cancelled during the year | (894,446) | $0.35 | (1,281,114) | $0.45 |
| **Outstanding at the end of the year** | **25,634,621** | **$0.18** | **30,099,192** | **$0.19** |
| Vested and exercisable at the end of the year | 25,634,621 | $0.18 | 30,099,192 | $0.19 |

The range of exercise prices for options outstanding at the end of the current financial year was 12.5 cents and 45 cents (2021: 12.5 cents and 75 cents).

The fair value of unlisted options issued has been determined using a Black-Scholes option pricing model that takes into account the exercise price, the term of the options, the impact of dilution, the non-tradeable nature of the options, the share price at grant date and expected price volatility of the underlying shares, the expected dividend yield and the risk-free interest rate for the term of the options.

The fair value of options granted during the year ended 30 June 2022 was $108,000 (2021: $725,000). The following table illustrates the inputs used to calculate the fair value of options issued during the current financial year.

| Item | Broker Options |
|---|---|
| Share price at grant date | $0.135 |
| Exercise price | $0.200 |
| Grant date | 2/08/2021 |
| Vesting date | 2/08/2021 |
| Expiry date | 10/08/2023 |
| Days to expiry | 738 |
| Number of options issued | 2,000,000 |
| Volatility | 94.65% |
| Risk-free interest rate | 0.13% |
| Valuation per option | $0.054 |
| Valuation per option class | $108,000 |

**(c) Unlisted Performance Rights**

Refer to Note 19 for movements in performance rights issued during the current and prior reporting periods. Performance rights are exercisable for nil consideration. The fair value of performance rights granted during the year ended 30 June 2022 was $312,000 (2021: $108,000). The fair value of performance rights expensed to the statement of profit or loss and other comprehensive income during the year ended 30 June 2022 totalled $149,000 (2021: $59,000).

The terms of performance rights issued to eligible employees during the current year include:

(i) The value and resulting number of rights issued is based on a maximum threshold applied to each employee expressed as a percentage of their fixed remuneration depending on their role and seniority within the Company;
(ii) performance will be measured over a three-year period from grant date; and
(iii) Rights will be granted at the discretion of the Board, but must be demonstrably linked to:
   a. 50% of the granted performance rights will be subject to a vesting condition, whereby the Absolute Total Shareholder Return (Absolute TSR) must exceed 25%.
   b. 50% of the granted performance rights will be subject to a vesting condition based on Relative Total Shareholder Return (Relative TSR), whereby the Company's TSR must be greater than TSRs of 7 of the 10 peer group of companies over the performance period. This vesting condition can only be met if the Company's absolute TSR is positive.

**20. RESERVES**

| | 2022<br>$'000 | 2021<br>$'000 |
|---|---|---|
| Equity incentive reserve | **1,336** | 1,163 |
| Financial asset revaluation reserve | **14** | (61) |
| Foreign exchange reserve | **-** | 91 |
| **Total reserves** | **1,350** | 1,193 |

Changes in the fair value and exchange differences arising on translation of investments, including financial assets held at fair value through equity are recognised in other comprehensive income as described in Note 4.6 and accumulated in a separate reserve in equity. Amounts are reclassified to retained earnings when the associated assets are sold or impaired.

The foreign exchange reserve records exchange difference arising on translation of the Company's foreign controlled subsidiaries. Amounts are recorded in other comprehensive income and are accumulated in a separate reserve within equity. Upon disposal of the foreign controlled operation the cumulative amount within the reserve is reclassified to profit or loss.

| | 2022<br>$'000 | 2021<br>$'000 |
|---|---|---|
| **Equity incentive reserve** | | |
| Opening balance | **1,163** | 405 |
| Equity incentives issued during the year | **108** | 112 |
| Share based payment expense | **165** | 107 |
| Reversal of lapsed options | **-** | (112) |
| Valuation of ESSO listed options issued | **-** | 651 |
| Transfer to equity of ESSO listed options exercised during the year | **(100)** | - |
| **Closing balance** | **1,336** | 1,163 |

The equity incentive reserve records items recognised on valuation of director, employee and contractor equity incentives. Information relating to the Group's Equity Incentive Plan, including details of equity incentives issued, exercised and lapsed during the current reporting period and equity incentives outstanding at the end of the current reporting period, is set out in Note 19.

## 21. ACCUMULATED LOSSES

| | **2022** | 2021 |
|---|---|---|
| | **$'000** | $'000 |
| Accumulated losses at the beginning of the year | **(25,328)** | (23,844) |
| Net (loss)/profit attributable to members | **(1,668)** | (1,383) |
| Transfer from financial asset revaluation reserve – derecognition of investment | **2,779** | (101) |
| **Accumulated losses at the end of the year** | **(24,217)** | (25,328) |

## 22. FINANCIAL INSTRUMENTS

The Group's activities expose it to a variety of financial risks and market risks. The Group's overall risk management program focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the financial performance of the Group.

**Financial Risk Management**

Exposure to key financial risks is managed in accordance with the Group's risk management policy with the objective to ensure that the financial risks inherent in exploration activities are identified and then managed and kept as low as reasonably practicable. The main financial risks that arise in the normal course of business are market risk (primarily interest rate risk and equity market risk), credit risk and liquidity risk. Different methods are used to measure and manage these risk exposures. Liquidity risk is monitored through the ongoing review of available cash and future commitments for exploration expenditure. Exposure to liquidity risk is limited by anticipating liquidity shortages and ensures capital can be raised in advance of shortages. It is the Board's policy that no speculative trading in financial instruments be undertaken so as to limit exposure to price risk.

Primary responsibility for identification and control of financial risks rests with the Managing Director and the Chief Financial Officer, under the authority of the Board. The Board is appraised of these risks from time to time and agrees any policies that may be undertaken to manage any of the risks identified.

Details of the significant accounting policies and methods adopted, including criteria for recognition, the basis of measurement and the basis on which income and expenses are recognised, in respect of each financial instrument are disclosed in Note 4 to the financial statements. The carrying values less the impairment allowance for receivables and payables are assumed to approximate fair values due to their short-term nature. Cash and cash equivalents are subject to variable interest rates.

**Categories of Financial Instruments**

| | **2022** | 2021 |
|---|---|---|
| | **$'000** | $'000 |
| **Financial assets at amortised cost** | | |
| Cash and cash equivalents | **10,527** | 5,466 |
| Trade and other receivables | **443** | 15 |
| **Investments in equity instruments designated as at FVOCI** | | |
| Investments | **113** | 273 |
| **Total financial assets** | **11,083** | 5,754 |
| **Financial liabilities at amortised cost** | | |
| Trade and other payables | **504** | 223 |
| **Total financial liabilities** | **504** | 223 |

**Fair value hierarchy**

This section explains the judgements and estimates made in determining the fair values of the financial instruments that are recognised and measured at fair value in the financial statements. To provide an indication about the reliability of the inputs used in determining fair value, the Group has classified its financial instruments into the three levels prescribed under the Accounting Standards. An explanation of each level follows underneath the table.

| **Recurring fair value measurements At 30 June 2022** | **Level 1 $'000** | **Level 2 $'000** | **Total $'000** |
|---|---|---|---|
| **Financial assets** | | | |
| *Financial assets at fair value through other comprehensive income* | | | |
| Australian listed equity securities | - | - | - |
| Canadian listed equity securities | 113 | - | 113 |
| **Total financial assets** | 113 | - | 113 |
| | | | |
| **Recurring fair value measurements at 30 June 2021** | | | |
| **Financial assets** | | | |
| *Financial assets at fair value through other comprehensive income* | | | |
| Australian listed equity securities | 193 | - | 193 |
| Canadian listed equity securities | 80 | - | 80 |
| **Total financial assets** | 273 | - | 273 |

There were no transfers between levels 1 and 2 for recurring value measurements during the current or prior reporting periods.

**Level 1** – The fair value of financial instruments traded in active markets is based on quoted market prices at the end of the reporting period. The quoted market price used for financial assets held by the Group is the current bid price. These instruments are included in level 1.

**Level 2** – The fair value of financial instruments that are not traded in an active market is determined using valuation techniques which maximise the use of observable data and rely as little as possible on entity specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in level 2. Valuation inputs include underlying spot prices, implied volatility, discount curves and time until expiration, expressed as a percent of a year.

**Specific financial risk exposures and management**

**(a) Market Risk – Interest rate risk management**

The Group's cash-flow interest rate risk primarily arises from cash at bank and deposits subject to market bank rates. At reporting date, the Group does not have any borrowings. The Group does not enter into hedges.

The Group has exposure to interest rate risk, which is the risk that a financial instrument's value will fluctuate as a result of changes in market, interest rates and the effective weighted average interest rates on those financial assets.

**(b) Liquidity risk**

Liquidity risk arises from the possibility that the Group might encounter difficulty in settling its debts or otherwise meeting its obligations related to financial liabilities.

Prudent liquidity risk management implies maintaining sufficient cash reserves to meet the ongoing operational requirements of the business. It is the Group's policy to maintain sufficient funds in cash and cash equivalents. Furthermore, the Group monitors its ongoing exploration cash requirements and raises equity funding as and when appropriate to meet such planned requirements. The Group has no undrawn financing facilities other than unused balances on company credit cards. Refer Note 12(c) for further details. Trade and other payables, the only financial liability of the Group, are due within 3 months.

At the present state of the Group's operations it has limited liquidity risk due to the level of payables and cash reserves held. The Group's objective is to maintain a balance between continuity of exploration funding and flexibility through the use of available cash reserves.

**Liquidity and interest risk table**

The following tables detail the Group's remaining contractual maturity for its non-derivative financial assets and liabilities and have been prepared on the following basis:

- Financial assets – based on the undiscounted contractual maturities including interest that will be earned on those assets except where the Group anticipates that the cash flow will occur in a different period; and
- Financial liabilities – based on undiscounted cash flows on the earliest date on which the Group can be required to pay, including both interest and principal cash flows.

| 2022 | Weighted average interest rate | Less than 1 month $'000 | 1-3 months $'000 | 3 months->5 years $'000 | No fixed term $'000 | Total $'000 |
|---|---|---|---|---|---|---|
| **Financial assets** | | | | | | |
| *Financial assets at amortised cost* | | | | | | |
| Non-interest bearing | - | 68 | - | - | 375 | 443 |
| Variable interest rate | 0.10% | 5,527 | - | - | - | 5,527 |
| Fixed interest rate | 1.25% | - | - | 5,000 | - | 5,000 |
| *Investments in equity instruments designated as at FVOCI* | | | | | | |
| Investments | - | - | - | - | 113 | 113 |
| **Total financial assets** | **0.65%** | **5,595** | **-** | **5,000** | **488** | **11,082** |
| **Financial liabilities at amortised cost** | | | | | | |
| Non-interest bearing | - | 504 | - | - | - | 504 |
| Variable interest rate | - | - | - | - | - | - |
| Fixed interest rate | - | - | - | - | - | - |
| **Total financial liabilities** | **-** | **504** | **-** | **-** | **-** | **504** |

| 2021 | Weighted average interest rate | Less than 1 month $'000 | 1-3 months $'000 | 3 months->5 years $'000 | No fixed term $'000 | Total $'000 |
|---|---|---|---|---|---|---|
| **Financial assets** | | | | | | |
| *Financial assets at amortised cost* | | | | | | |
| Non-interest bearing | - | 15 | - | - | - | 15 |
| Variable interest rate | 0.01% | 2,466 | - | - | - | 2,466 |
| Fixed interest rate | 0.40% | - | 3,000 | - | - | 3,000 |
| *Investments in equity instruments designated as at FVOCI* | | | | | | |
| Investments | - | - | - | - | 273 | 273 |
| **Total financial assets** | **0.22%** | **2,481** | **3,000** | **-** | **273** | **5,754** |
| **Financial liabilities at amortised cost** | | | | | | |
| Non-interest bearing | - | 223 | - | - | - | 223 |
| Variable interest rate | - | - | - | - | - | - |
| Fixed interest rate | - | - | - | - | - | - |
| **Total financial liabilities** | **-** | **223** | **-** | **-** | **-** | **223** |

**(c) Credit risk management**

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Group. The Group has adopted a policy of only dealing with creditworthy counterparties and obtaining sufficient collateral where appropriate, as a means of mitigating the risk of financial loss from defaults. The Group does not have any significant credit risk exposure to any single counterparty or any group of counterparties having similar characteristics.

With respect to credit risk arising from financial assets, which comprise cash and cash equivalents and receivables, the exposure to credit risk arises from default of the counter party, with a maximum exposure equal to the carrying amount of these instruments. The credit risk on liquid funds is limited because the counterparties are Australian banks with a minimum A Credit Rating.

The maximum exposure to credit risk, excluding the value of any collateral or other security, at balance date, is the carrying amount of the financial assets, net of any expected credit losses, as disclosed in the statement of financial position and in the notes to the financial statements.

**(d) Commodity price risk**
The Group was not exposed to any material commodity risk during and at the end of the current reporting period.

**(e) Foreign exchange risk**
The Group disposed of its wholly owned Canadian subsidiary during the current reporting period. The related capitalised exploration and evaluation balance was written off during the current reporting period and has removed any related foreign exchange risk exposure in relation to this balance that was denominated in Canadian dollars.

The Group is exposed to foreign exchange risk arising from equity investments listed on the Toronto Stock Exchange (TSXV), although given the size of these investments the directors to not anticipate that significant fluctuations in related foreign currencies would result in a material change to the valuation of these assets at the end of the current reporting period.

**(f) Price risk on investments**
The Group is exposed to equity price risks arising from equity investments. The Group's investments are listed on the Australian Securities Exchange (ASX) and Toronto Stock Exchange (TSXV).

The financial asset revaluation reserve component of equity would increase/decrease as a result of gains/losses on equity securities classified as FVOCI.

**(g) Capital risk management**
The Group's objectives when managing capital are to:

- safeguard its ability to continue as a going concern, so that it can continue to provide returns for Shareholders and benefits for other stakeholders, and
- maintain an optimal capital structure to reduce the cost of capital and maximise returns to Shareholders and benefits for other stakeholders.

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to Shareholders, return capital to Shareholders or issue new Shares. No dividends were paid or provided for during the financial period (2021: Nil).

Total capital is equity, as shown in the Consolidated Statement of Financial Position. The Group is not subject to any externally imposed capital requirements. There were no changes in the Group's approach to capital management during the year.

## 23. GROUP COMPOSITION

### (a) List of subsidiaries

| | | | Ownership percentage | |
|---|---|---|---|---|
| | Place of incorporation | Principal activities | 2022 | 2021 |
| Golden Ridge North Kambalda Pty Ltd | Australia | Exploration | 100% | 100% |
| Western Copper Pty Ltd | Australia | Exploration | 100% | 100% |
| Pioneer Canada Lithium Corp.[1] | Canada | Exploration | 0% | 100% |

**Note:**
[1] - On 4 January 2022 the Company completed the sale of wholly owned Canadian subsidiary Pioneer Canada Lithium Corp. to a subsidiary of Critical Resources Limited (ASX:CRR).

### (b) Third party interests

The Group's interests in farm-ins and unincorporated joint ventures are listed below.

| | | | ESS Interest held | |
|---|---|---|---|---|
| Project | Third party partner or third party holder | Third party participating equity At 30 June 2021 | 30 June 2022 | 30 June 2021 |
| Acra (Gold) | Northern Star Limited ("NST") | NST hold a 75% interest. Ardea Resources Limited retains 100% of the nickel laterite rights on E27/278, E27/520, E28/1746. | 25% | 25% |
| Kangan (Gold) | Novo Resources Corp. ("NVO") | NVO holds a 70% interest in gold and precious metals rights. | 100% | 100% |
| Balagundi (Gold) | Black Cat Syndicate Limited ("BCS") | BCS may earn a 75% interest. | 100% | 100% |
| Larkinville (Gold/Nickel) | Maximus Resources Limited ("MXR") | MXR holds a 75% interest on gold minerals and 80% on nickel minerals. | 25% Au<br>20% Ni | 25% Au<br>20% Ni |
| Wattle Dam (Gold/Nickel) | Maximus Resources Limited ("MXR") | MXR holds a 100% interest on gold minerals and 80% on nickel minerals. Ardea Resources Limited has a pre-emptive right to nickel laterite ore. | 20% Ni | 20% Ni |
| Maggie Hays Hill (Nickel) | Poseidon Nickel Ltd ("POS") | POS holds an 80% interest all minerals. | 20% | 20% |
| Blair-Golden Ridge (Nickel) | Australian Nickel Company Ltd ("ANCO") | ANCO may earn a 75% interest on nickel minerals. | 100% | 100% |
| Mavis Lake (Lithium) | International Lithium Corp. ("ILC") | ILC held a 49% interest in the Mavis Lake Lithium Joint Venture. ESS disposed of the subsidiary in which the Mavis Lake Lithium Joint Venture was held on 4 January 2022. | - | 51% |

**Note:** There are no assets owned by the third-party partner or holders and the Group's expenditure in respect of its participation is brought to account initially as capitalised exploration and evaluation expenditure under the Group's accounting policy in Note 4.5. There were no capital commitments or contingent liabilities arising out of the Group's third-party interest activities as at 30 June 2022 (2021: Nil).

**UNRECOGNISED ITEMS**

**24. CONTINGENT LIABILITIES**

There were no material contingent liabilities as at 30 June 2022 (2021: Nil).

**25. COMMITMENTS**

**(a) Exploration**
The Group has certain obligations to perform minimum exploration work on mineral leases held. As at the end of the current financial year, total exploration expenditure commitments on tenements held by the Group have not been provided for in the financial statements and those which cover the following twelve month period amount to $446,000 (2021: $297,000). This commitment does not include the expenditure commitments which are the responsibility of the joint venture partners, amounting to $1,994,000 (2021: $1,936,000).

These obligations are subject to variations by farm-out arrangements or sale of the relevant tenements or expenditure exemptions as permitted under the Mining Act 1978 (amended 2006), and as such the Group does not report exploration expenditure commitments beyond the 12 month period following the current reporting date.

**(b) Capital commitments**
There were no ongoing capital commitments as at 30 June 2022 (2021: Nil).

**26. SUBSEQUENT EVENTS**

On 17 August 2022 the Group issued 430,985 unlisted performance rights to employees under the Group's shareholder approved Equity Incentive Plan for the 2022/23 financial year. The Managing Director is entitled to receive 219,718 unlisted performance rights on the same terms, subject to shareholder approval.

Other than the above, there has not been any matter or circumstance occurring subsequent to the end of the financial year that has significantly affected, or may significantly affect, the operations of the Group, the results of those operations, or the state of affairs of the Group in future financial years.

**OTHER INFORMATION**

This section of the notes includes other information that must be disclosed to comply with the accounting standards and other pronouncements, but that is not immediately related to line items in the financial statements.

**27. RELATED PARTIES**

**Parent entity and subsidiaries**
The ultimate parent entity of the Group is Essential Metals Limited. Interests in other entities are set out in Note 23.

**Key management personnel**
Key management personnel compensation comprised the following:

| | **2022** | 2021 |
|---|---|---|
| | **$** | $ |
| **Current disclosed KMP** | | |
| Short-term employee benefits | **936,983** | 852,885 |
| Post-employment benefits | **82,484** | 68,766 |
| Share-based payments | **127,798** | 66,266 |
| | **1,147,265** | 987,917 |
| **Former disclosed KMP** | | |
| Short-term employee benefits | - | 45,164 |
| Post-employment benefits | - | 4,181 |
| Share-based payments | - | (6,840) |
| Employment termination payments | - | 15,739 |
| | - | 59,426 |
| **Total key management personnel compensation** | **1,147,265** | 1,046,161 |

**Other director related party transactions**
There were no other transactions with related parties during or outstanding at the end of the current reporting period.

**28. REMUNERATION OF AUDITORS**

| | **2022** | 2021 |
|---|---|---|
| | **$** | $ |
| **Audit services** | | |
| Audit or review of Group financial reports by BDO | **38,554** | - |
| Audit or review of Group financial reports by Deloitte | - | 57,500 |
| **Other services** | | |
| Corporate finance services | **3,800** | - |
| **Total** | **42,354** | 57,500 |

**Note:** The auditor of the Group changed from Deloitte Touche Tohmatsu to BDO Audit (WA) Pty Ltd following Shareholder approval at the Company's 2021 Annual General Meeting held on 23 November 2021.

## 29. PARENT ENTITY INFORMATION

| | **2022** | 2021 |
|---|---|---|
| | **$'000** | $'000 |
| Current assets | **11,126** | 5,782 |
| Total assets | **22,125** | 14,474 |
| Current liabilities | **1,726** | 1,018 |
| Total liabilities | **1,936** | 1,150 |
| | | |
| Contributed equity | **50,150** | 44,538 |
| Accumulated losses | **(31,311)** | (32,316) |
| Equity incentive reserve | **1,336** | 1,163 |
| Financial asset revaluation reserve | **14** | (61) |
| | | |
| Loss for the period | **(330)** | (2,516) |
| Total comprehensive income/(loss) for the period | **1,097** | (2,671) |

*Other information*

The parent entity did not enter into any guarantees in relation to the debts of its subsidiaries in the current or previous financial years. The parent entity did not have contingent liabilities at the end of the current or prior financial year other than disclosed at Note 24. The parent entity did not have contractual commitments at the end of the current or prior financial year other than disclosed in Note 25.

**END OF THE FINANCIAL REPORT**

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

In accordance with a resolution of the directors of Essential Metals Limited, I state that:

In the opinion of the directors:

(a) The financial report and notes of Essential Metals Limited for the financial year ending 30 June 2022 are in accordance with the *Corporations Act 2001*, including:

   (i) complying with Accounting Standards, the *Corporations Regulations 2001* and other mandatory professional reporting requirements;

   (ii) giving a true and fair view of the Group's financial position as at 30 June 2022 and of its performance for the financial year ended on that date; and

   (iii) The attached financial statements are in compliance with International Financial Reporting Standards as stated in Note 1 to the financial statements.

(b) There are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

The directors have been given the declarations required by s295A of the *Corporations Act 2001*.

Signed in accordance with a resolution of the directors made pursuant to s.295(5) of the *Corporations Act 2001*.

On behalf of the Board of Directors

**Timothy Spencer**
Managing Director

28 September 2022

# INDEPENDENT AUDITOR'S **REPORT**

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**INDEPENDENT AUDITOR'S REPORT**

To the members of Essential Metals Limited

## Report on the Audit of the Financial Report

### Opinion

We have audited the financial report of Essential Metals Limited (the Company) and its subsidiaries (the Group), which comprises the consolidated statement of financial position as at 30 June 2022, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the financial report, including a summary of significant accounting policies and the directors' declaration.

In our opinion the accompanying financial report of the Group, is in accordance with the *Corporations Act 2001*, including:

(i) Giving a true and fair view of the Group's financial position as at 30 June 2022 and of its financial performance for the year ended on that date; and

(ii) Complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

### Basis for opinion

We conducted our audit in accordance with Australian Auditing Standards. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the Financial Report* section of our report. We are independent of the Group in accordance with the *Corporations Act 2001* and the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants (including Independence Standards)* (the Code) that are relevant to our audit of the financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

We confirm that the independence declaration required by the *Corporations Act 2001*, which has been given to the directors of the Company, would be in the same terms if given to the directors as at the time of this auditor's report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial report of the current period. These matters were addressed in the context of our audit of the financial report as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

BDO

### Carrying value of exploration and evaluation assets

| *Key audit matter* | *How the matter was addressed in our audit* |
|---|---|
| At 30 June 2022 the carrying value of exploration and evaluation assets was disclosed in Note 14 of the financial report.<br><br>As the carrying value of these exploration and evaluation assets represents a significant asset of the Group, we considered it necessary to assess whether any facts or circumstances exist to suggest that the carrying amount of this asset may exceed its recoverable amount.<br><br>Judgement is applied in determining the treatment of exploration expenditure in accordance with Australian Accounting Standard AASB 6 *Exploration for and Evaluation of Mineral Resources*. In particular:<br><br>• Whether the conditions for capitalisation are satisfied;<br>• Which elements of exploration and evaluation expenditures qualify for recognition; and<br>• Whether facts and circumstances indicate that the exploration and expenditure assets should be tested for impairment. | Our procedures included, but were not limited to:<br><br>• Obtaining a schedule of the areas of interest held by the Group and assessing whether the rights to tenure of those areas of interest remained current at balance date;<br>• Holding discussions with management as to the status of ongoing exploration programmes in the respective areas of interest;<br>• Considering whether any such areas of interest had reached a stage where a reasonable assessment of economically recoverable reserves existed;<br>• Considering whether any facts or circumstances existed to suggest impairment testing was required;<br>• Verifying, on a sample basis, exploration and evaluation expenditure capitalised during the year for compliance with the recognition and measurement criteria of AASB 6; and<br>• Reviewing the treatment of the sale of the Mavis Lake project which occurred during the period, which included:<br>  ◦ Reviewing the key executed transaction documents to understand the key terms and conditions of the transaction; and<br>  ◦ Evaluating the accuracy of the net loss recognised.<br><br>We also assessed the adequacy of the related disclosures in Note 4.7 and Note 14 to the financial statements. |

# INDEPENDENT AUDITOR'S **REPORT**

**Other information**

The directors are responsible for the other information. The other information comprises the information in the Group's annual report for the year ended 30 June 2022, but does not include the financial report and the auditor's report thereon.

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

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

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

**Responsibilities of the directors for the Financial Report**

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

In preparing the financial report, the directors are responsible for assessing the ability of the group to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

**Auditor's responsibilities for the audit of the Financial Report**

Our objectives are to obtain reasonable assurance about whether the financial report as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Australian Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of this financial report.

A further description of our responsibilities for the audit of the financial report is located at the Auditing and Assurance Standards Board website (http://www.auasb.gov.au/Home.aspx) at:

https://www.auasb.gov.au/admin/file/content102/c3/ar1_2020.pdf

This description forms part of our auditor's report.

### Report on the Remuneration Report

**Opinion on the Remuneration Report**

We have audited the Remuneration Report included in pages 44 to 54 of the directors' report for the year ended 30 June 2022.

In our opinion, the Remuneration Report of Essential Metals Limited, for the year ended 30 June 2022, complies with section 300A of the *Corporations Act 2001*.

**Responsibilities**

The directors of the Company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

**BDO Audit (WA) Pty Ltd**

BDO

**Phillip Murdoch**

**Director**

Perth

28 September 2022

# ADDITIONAL **SHAREHOLDER INFORMATION**

The following additional information is required by the Australian Securities Exchange. The information was current as at 20 September 2022.

**(a) Top 20 quoted shareholders**

| Rank | Holder name | % | Number of shares |
|---|---|---|---|
| 1 | CITICORP NOMINEES PTY LIMITED | 6.04 | 14,987,406 |
| 2 | BNP PARIBAS NOMINEES PTY LTD <IB AU NOMS RETAILCLIENT DRP> | 2.35 | 5,821,529 |
| 3 | HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED | 1.29 | 3,201,583 |
| 4 | CS FOURTH NOMINEES PTY LIMITED <HSBC CUST NOM AU LTD 11 A/C> | 1.16 | 2,875,770 |
| 5 | BNP PARIBAS NOMINEES PTY LTD ACF CLEARSTREAM | 1.08 | 2,681,185 |
| 6 | BNP PARIBAS NOMS PTY LTD <DRP> | 1.07 | 2,646,284 |
| 7 | MORGAN STANLEY AUSTRALIA SECURITIES (NOMINEE) PTY LIMITED <NO 1 ACCOUNT> | 0.95 | 2,344,759 |
| 8 | IONIKOS PTY LTD <MCGOWN SUPER FUND A/C>[1] | 0.79 | 1,970,364 |
| 9 | MR THOMAS WAYNE SPILSBURY & MRS MARCEY EVA SPILSBURY <TIGER SUPER FUND A/C> | 0.77 | 1,910,080 |
| 10 | MR JIUMIN YAN | 0.75 | 1,865,000 |
| 11 | DAY LIVIN PTY LTD | 0.75 | 1,848,000 |
| 12 | MR CHRISTOPHER ALLAN EAGLESHAM | 0.65 | 1,600,555 |
| 13 | RAFE PTY LTD <THE TOMASICH SUPER FUND A/C> | 0.56 | 1,400,000 |
| 14 | MR MARK KEVIN PROCTOR | 0.55 | 1,370,483 |
| 15 | MR MICHAEL WILLIAM GAULE | 0.53 | 1,319,671 |
| 16 | MR TIMOTHY GERARD SPENCER <THE SPENCER INVESTMENT A/C> | 0.52 | 1,289,411 |
| 17 | NO LIMIT HOLDINGS PTY LTD <NO LIMIT HOLDINGS A/C> | 0.46 | 1,130,785 |
| 18 | MR CEDRIC DESMOND PARKER | 0.43 | 1,060,000 |
| 19 | NO BULL HEALTH PTY LTD | 0.40 | 1,000,000 |
| 20 | WARBONT NOMINEES PTY LTD <UNPAID ENTREPOT A/C> | 0.40 | 999,316 |
| | | **21.50** | **53,322,181** |

**Note:**

[1] - Beneficial owner is Non-Executive Chairman of the Company, Craig McGown, who has a total shareholding of 2,177,031 ordinary shares.

**(b) Distribution of quoted ordinary shares**

| Size of parcel | Number of share holders | Number of shares | % Issued share capital |
|---|---|---|---|
| 1 – 1,000 | 620 | 268,729 | 0.11% |
| 1,001 – 5,000 | 1,861 | 5,462,286 | 2.20% |
| 5,001 – 10,000 | 1,148 | 9,334,829 | 3.76% |
| 10,001 – 100,000 | 2,298 | 79,686,856 | 32.13% |
| 100,000 + | 404 | 153,281,087 | 61.80% |
| **Total** | **6,331** | **248,033,787** | **100.00%** |

# ADDITIONAL **SHAREHOLDER INFORMATION**

**(c) Number of holders with less than a marketable parcel of ordinary shares**

The number of shareholders holding less than a marketable parcel of fully paid ordinary shares was 634 (holding 282,929 shares).

**(d) Substantial shareholders**

No substantial shareholding notices have been provided to Essential Metals Limited.

**(e) Voting rights**

Fully paid ordinary shares carry one vote per ordinary share without restriction. No other securities have voting rights.

**(f) Top 20 quoted ESSO option holders**

| Rank | Holder name | % | Number of options |
|---|---|---|---|
| 1 | BASILDENE PTY LTD <WARREN BROWN SUPER FUND A/C> | 18.92 | 3,627,093 |
| 2 | MR BILAL AHMAD | 11.97 | 2,295,000 |
| 3 | FRANCIS HOLDINGS (WA) PTY LTD | 6.22 | 1,192,738 |
| 4 | MERRILL LYNCH (AUSTRALIA) NOMINEES PTY LIMITED | 4.60 | 882,353 |
| 5 | MR MARK KEVIN PROCTOR | 4.41 | 845,470 |
| 6 | INSURANCE SERVICES (WA) PTY LTD | 4.25 | 815,643 |
| 7 | MR WARREN THOMAS BROWN & MRS ROSLYN UNA BROWN <WT & RU BROWN FAMILY A/C> | 3.27 | 627,346 |
| 8 | MR DAVID ANTON PETRUS | 2.75 | 527,345 |
| 9 | TURNER SHEPHERD PTY LTD <TURNER SHEPHERD FAM SF A/C> | 2.61 | 500,000 |
| 10 | MR MERVYN PETER AIM & MRS SANDRA MARY AIM <THE AIM SUPER FUND A/C> | 1.43 | 274,646 |
| 11 | ABN AMRO CLEARING SYDNEY NOMINEES PTY LTD <CUSTODIAN A/C> | 1.38 | 264,796 |
| 12 | MR SHAYNE TIMOTHY FIELDER & MR GORDON WINSTON PICKARD | 1.30 | 250,000 |
| 12 | MR WARREN THOMAS BROWN | 1.30 | 250,000 |
| 12 | MR PAUL GARNET FARMER | 1.30 | 250,000 |
| 13 | MRS CHINIQUE WYATT | 1.10 | 210,000 |
| 14 | MAGNIM PTY LTD <IAN COX SUPER FUND A/C> | 0.92 | 176,470 |
| 14 | MR MERVYN PETER AIM & MRS SANDRA MARY AIM <THE AIM FAMILY A/C> | 0.92 | 176,470 |
| 14 | MR NON HUYNH NGUYEN | 0.92 | 176,470 |
| 14 | MRS MARGARET HELEN HOWARD & MR WILLIAM JOHN HOWARD <WJ & MH HOWARD S/F A/C> | 0.92 | 176,470 |
| 14 | KOOYAP PTY LTD <YAP & FOO S/F A/C> | 0.92 | 176,470 |
| 15 | MRS ALICE MARIE JOYCE HENNESSY | 0.90 | 172,700 |
| 16 | M & M CHAN PTY LTD <M & M CHAN SUPER FUND A/C> | 0.83 | 160,000 |
| 17 | MR MATTHEW JOHN WAKEFIELD & DR SUZANNE ELIZABETH PEARSON | 0.82 | 157,119 |
| 18 | MR POH SENG TAN | 0.78 | 150,000 |
| 18 | LCL VENTURE PTY LTD | 0.78 | 150,000 |
| 19 | MR JAMES PAUL ANDERSON & MS BERNADETTE MARIE SLOYAN <ANDERSON SLOYAN SMSF A/C> | 0.77 | 147,058 |
| 20 | MRS HEATHER XIAOQIN HUANG | 0.63 | 120,000 |
| | | **76.93** | **14,751,657** |

# ADDITIONAL **SHAREHOLDER INFORMATION**

**(g) Unquoted equity securities**

| Equity security type | Security Code | Issued to | Number on issue | Exercise price | Expiry date |
|---|---|---|---|---|---|
| Options | ESSOPT6 | Directors | 713,890 | $0.45 | 30-Nov-2022 |
| Options | ESSOPT17 | Broker | 500,000 | $0.20 | 10-Aug-2023 |
| Options | ESSOPT7 | Directors | 500,000 | $0.25 | 31-Jan-2024 |
| Options | ESSOPT8 | Directors | 500,000 | $0.35 | 31-Jan-2024 |
| Options | ESSOPT9 | Directors | 500,000 | $0.45 | 31-Jan-2024 |
| Options | ESSOPT10 | Directors | 533,334 | $0.25 | 30-Jun-2024 |
| Options | ESSOPT11 | Directors | 533,334 | $0.35 | 30-Jun-2024 |
| Options | ESSOPT12 | Directors | 533,334 | $0.45 | 30-Jun-2024 |
| Options | ESSOPT14 | Directors | 200,000 | $0.125 | 20-Sept-2024 |
| Options | ESSOPT15 | Directors | 200,000 | $0.175 | 20-Sept-2024 |
| Options | ESSOPT16 | Directors | 200,000 | $0.225 | 20-Sept-2024 |
| Performance Rights | ESSPR3 | Directors | 500,000 | N/A | 31-Jan-2024 |
| Performance Rights | ESSPR5&6 | Directors | 454,545 | N/A | 30-Jun-2024 |
| Performance Rights | ESSPR5&6 | Employees | 691,065 | N/A | 30-Jun-2024 |
| Performance Rights | ESSPR7&8 | Employees | 1,271,684 | N/A | 30-Jun-2025 |
| Performance Rights | ESSPR7&8 | Directors | 795,918 | N/A | 30-Jun-2025 |
| | | | **8,627,104** | | |

# MINERAL RESOURCE STATEMENT

**MINERAL RESOURCE STATEMENT**
As at 30 June 2022

| The Dome North Lithium Project | | | | |
|---|---|---|---|---|
| **Project area** | **Category** | **Tonnes (Mt)** | **Grade ($Li_2O$ %)** | **Tonnes $Li_2O$** |
| Cade Deposit | Indicated | 5.4 | 1.30 | 70,000 |
| | Inferred | 2.8 | 1.18 | 33,000 |
| Davy Deposit | Inferred | 2.3 | 1.13 | 25,000 |
| Heller Deposit | Inferred | 0.7 | 1.02 | 8,000 |
| **Total** | | **11.2** | **1.21** | **136,000** |

**Glossary**
$Li_2O$ – Lithium Oxide

# COMPETENT PERSONS STATEMENTS

**COMPETENT PERSON STATEMENTS**

**Exploration Results**

The information in this Report which relates to exploration results is based on information compiled by Mr Andrew Dunn. Mr Dunn (MAIG), Exploration Manager who is employed full-time by Essential Metals Limited, compiled the technical aspects of this Report, other than pertaining to the Joint Ventures. Mr Dunn is eligible to receive equity-based securities in Essential Metals Limited under the Company's employee incentive schemes. Mr Dunn is a member of the Australian Institute of Geoscientists and has sufficient experience that is relevant to this style of mineralization and type of deposit under consideration and to the activity that is being reported on 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 Dunn consents to the inclusion in the Report of the matters in the form and context in which it appears.

**Mineral Resource Estimates - Dome North Lithium Project**

The information in this Report that relates to Mineral Resources for the Dome North Lithium Project is based on and fairly represents information compiled by Competent Person Mr Lauritz Barnes. Mr Barnes is a consultant to the Company and is a member of both the Australasian Institute of Mining and Metallurgy and the Australian Institute of Geoscientists. Mr Barnes has sufficient experience of relevance to the styles of mineralisation and types of deposits under consideration, and to the activities undertaken to qualify as Competent Persons as defined in the 2012 Edition of the Joint Ore Reserves Committee (JORC) Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves. Mr Barnes consents to the inclusion in the Report of the matter in the form and context in which it appears.

**Reference to previous market announcements**

The Company confirms that it is not aware of any new information or data that materially affects the information included in the original market announcements and that all material assumptions and technical parameters underpinning the estimates in the relevant market announcements continue to apply and have not materially changed. The company confirms that the form and context in which Exploration Results or Competent Person's findings are presented have not been materially modified from the original market announcements.

# FORWARD LOOKING STATEMENTS

**FORWARD LOOKING STATEMENTS**

This document may contain “forward-looking statements” and other forward-looking information based on the Group’s expectations, estimates and projections as of the date on which the statements were made. This forward-looking information includes, among other things, statements with respect to the Group’s business strategy, plan, development, objectives, performance, outlook, growth, cash flow, projections, targets and expectations, Mineral Resources and results of exploration. Generally, this forward-looking information can be identified by the use of forward-looking terminology such as ‘outlook’, ‘anticipate’, ‘project’, ‘target’, ‘likely’,’ believe’, ’estimate’, ‘expect’, ’intend’, ’may’, ’would’, ’could’,’ should’, ’scheduled’, ’will’, ’plan’, ’forecast’, ’evolve’ and similar expressions. Persons reading this document are cautioned that such statements are only predictions, and that the Group’s actual future results or performance may be materially different. Forward-looking information is subject to known and unknown risks, uncertainties and other factors that may cause the Group’s actual results, level of activity, performance or achievements to be materially different from those expressed or implied by such forward-looking information. Forward-looking information is developed based on assumptions about such risks, uncertainties and other factors, including but not limited to general business, economic, competitive, political and social uncertainties; the actual results of current exploration activities; conclusions of economic evaluations; changes in project parameters as plans continue to be refined; future commodity prices; possible variations of ore grade or recovery rates; failure of plant, equipment or processes to operate as anticipated; accident, labour disputes and other risks of the mining industry; and delays in obtaining governmental approvals or financing or in the completion of development or construction activities. This list is not exhaustive of the factors that may affect our forward-looking information. These and other factors should be considered carefully and readers should not place reliance on such forward-looking information. Recipients of this document must make their own investigations and inquiries regarding all assumptions, risks, uncertainties and contingencies which may affect the future operations of the Group and the Group’s securities. The Group disclaims any intent or obligations to or revise any forward-looking statements whether as a result of new information, estimates, or options, future events or results or otherwise, unless required to do so by law.

# TENEMENT REGISTER

**Tenement Register (Consolidated Basis) as at 30 June 2022**

| Tenement | Holder | Notes | Status |
|---|---|---|---|
| **Pioneer Dome Project Located 133km SSE of Kalgoorlie, WA** | | | |
| E15/1515 | Essential Metals Limited | | Granted |
| E15/1522 | Essential Metals Limited | | Granted |
| E15/1725 | Essential Metals Limited | | Granted |
| E63/1669 | Essential Metals Limited | | Granted |
| E63/1782 | Essential Metals Limited | | Granted |
| E63/1783 | Essential Metals Limited | | Granted |
| E63/1785 | Essential Metals Limited | | Granted |
| E63/1825 | Essential Metals Limited | | Granted |
| E63/2118 | Essential Metals Limited | | Granted |
| L63/77 | Essential Metals Limited | | Granted |
| M63/665 | Essential Metals Limited | | Granted |
| **Golden Ridge Nickel Project Located 30km SE of Kalgoorlie, WA** | | | |
| E26/186 | Golden Ridge North Kambalda Pty Ltd | 1, 2 | Granted |
| E26/211 | Golden Ridge North Kambalda Pty Ltd | 1, 2 | Granted |
| E26/212 | Golden Ridge North Kambalda Pty Ltd | 1, 2 | Granted |
| M26/220 | Golden Ridge North Kambalda Pty Ltd | 1, 2 | Granted |
| M26/222 | Golden Ridge North Kambalda Pty Ltd | 1, 2 | Granted |
| M26/284 | Golden Ridge North Kambalda Pty Ltd | 1, 2 | Granted |
| M26/285 | Golden Ridge North Kambalda Pty Ltd | 1, 2 | Granted |
| L26/272 | Golden Ridge North Kambalda Pty Ltd | 1, 2 | Granted |
| **Juglah Dome Project Located 60km ESE of Kalgoorlie, WA** | | | |
| E25/585 | Western Copper Pty Ltd | 3 | Granted |
| **Regional Projects, Located in WA** | | | |
| E15/1710 | Essential Metals Limited | | Granted |
| **Kangan Lithium & Gold Projects Located 80km S of Port Hedland, (Wodgina) WA** | | | |
| E45/4948 | Essential Metals Limited | 5 | Granted |
| E47/3318-I | Essential Metals Limited | 4, 5 | Granted |
| E47/3321-I | Essential Metals Limited | 4, 5 | Granted |
| E47/3945 | Essential Metals Limited | 5 | Granted |
| **Balagundi Gold & Base Metals Project Located 25km NE of Kalgoorlie, WA** | | | |
| E27/558 | Essential Metals Limited | 6 | Granted |
| **Acra Gold Project Located 60km NE of Kalgoorlie, WA** | | | |
| E27/278 | Essential Metals Limited / Northern Star Resources Limited | 7, 8 | Granted |
| E27/438 | Essential Metals Limited / Northern Star Resources Limited | 7, 8 | Granted |
| E27/491 | Essential Metals Limited / Northern Star Resources Limited | 8 | Granted |
| E27/520 | Essential Metals Limited / Northern Star Resources Limited | 7, 8 | Granted |
| E27/548 | Essential Metals Limited / Northern Star Resources Limited | 8 | Granted |
| E27/579 | Essential Metals Limited / Northern Star Resources Limited | 7, 8 | Granted |
| E28/1746 | Essential Metals Limited / Northern Star Resources Limited | 7, 8 | Granted |
| E28/2483 | Essential Metals Limited / Northern Star Resources Limited | 8 | Granted |

# TENEMENT REGISTER

| Tenement | Holder | Notes | Status |
|---|---|---|---|
| **Wattle Dam Nickel Project Located 65km S of Kalgoorlie, WA** | | | |
| M15/1101 | Maximus Resources Limited | 9, 10 | Granted |
| M15/1263 | Maximus Resources Limited | 9, 10 | Granted |
| M15/1264 | Maximus Resources Limited | 9, 10 | Granted |
| M15/1323 | Maximus Resources Limited | 9, 10 | Granted |
| M15/1338 | Maximus Resources Limited | 9, 10 | Granted |
| M15/1769 | Maximus Resources Limited | 9, 10 | Granted |
| M15/1770 | Maximus Resources Limited | 9, 10 | Granted |
| M15/1771 | Maximus Resources Limited | 9, 10 | Granted |
| M15/1772 | Maximus Resources Limited | 9, 10 | Granted |
| M15/1773 | Maximus Resources Limited | 9, 10 | Granted |
| **Larkinville Lithium, Nickel Project Located 75km S of Kalgoorlie, WA** | | | |
| M15/1449 | Essential Metals Limited / Maximus Resources Limited | 11 | Granted |
| P15/5912 | Essential Metals Limited / Maximus Resources Limited | 11 | Granted |
| **Maggie Hays Hill Nickel JV, Located 140km SE of Southern Cross** | | | |
| E63/1784 | Essential Metals Limited / Poseidon Nickel Limited | 12 | Granted |
| **Ravensthorpe Copper-Gold Project Located 340km SW of Kalgoorlie, WA** | | | |
| E74/379-I | Galaxy Lithium Australia Limited | 13 | Granted |
| E74/399 | Galaxy Lithium Australia Limited | 13 | Granted |
| E74/406 | Galaxy Lithium Australia Limited | 13 | Granted |
| **Katanning Gold Project** | | | |
| E70/5040 | Ausgold Exploration Pty Ltd | 14 | Granted |
| E70/5042 | Ausgold Exploration Pty Ltd | 14 | Granted |
| E70/5043 | Ausgold Exploration Pty Ltd | 14 | Granted |
| E70/5044 | Ausgold Exploration Pty Ltd | 14 | Granted |

| Note | |
|---|---|
| 1 | Golden Ridge North Kambalda Pty Ltd is a wholly owned subsidiary of Essential Metals Limited. |
| 2 | Nickel sulphides rights are subject to the Australian Nickel Company Ltd Farmin/Joint venture. |
| 3 | Western Copper Pty Ltd is a 100% owned subsidiary of Essential Metals Limited. |
| 4 | Subject to a 1.5% NSR royalty right held by FMG Pilbara Pty Ltd. |
| 5 | Kangan Gold JV Agreement: Novo Resources Corp holds a 70% Project Interest in gold and precious metals mineral rights. |
| 6 | Balagundi Farmin/JV Agreement: Black Cat Syndicate Limited is earning a 75% Project interest. |
| 7 | Heron Resources Limited retains nickel laterite ore rights. |
| 8 | Acra JV Agreement: Northern Star Resources Limited 75% interest. Essential Metals Limited 25% free carried interest. |
| 9 | Heron Resources Limited retains pre-emptive right to purchase nickel laterite ore. |
| 10 | Wattle Dam Nickel JV Agreement: Title, Mineral Rights held by Maximus Resources Limited. Essential Metals Limited 20% free carried interest in nickel sulphide minerals. |
| 11 | Larkinville West JV Agreement: Maximus Resources Limited 75%, Essential Metals Limited 25% free carried interest, except nickel rights which are subject to the Wattle Dam JV. |
| 12 | Maggie Hays Lake JV Agreement: Poseidon Nickel Limited 80%, Essential Metals Limited 20% & free carried interest to commencement of mining. |
| 13 | Title and lithium/tantalum rights held by Galaxy Lithium Australia Limited. Essential Metals Limited holds a 1.5% net smelter royalty. |
| 14 | Essential Metals Limited holds a 1.5% net smelter royalty. |

ESSENTIALMETALS

for a sustainable future


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