



Speciality Metals International Limited

ACN: 115 009 106 (ASX CODE: SEI)

Half Year Financial Report

31 DECEMBER 2018

CORPORATE DIRECTORY

DIRECTORS

Russell H. Krause Executive Chairman
Roland W. Nice Non-executive Director
Stephen Layton Non-executive Director

COMPANY SECRETARY

Adrien M. Wing (Appointed 1 February 2019)
David W. Clark (Ceased 31 January 2019)

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BANKERS

Commonwealth Bank of Australia

STOCK EXCHANGE LISTING

Listed on the Australian Securities Exchange (ASX)
ASX Code: SEI

ACN: 115 009 106

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Your Directors submit their Report for the half year ended 31 December 2018.

DIRECTORS

The names of the Company's Directors in office during the half year and at the date of this Report are as follows:

Russell H. Krause	Executive Chairman
Roland W. Nice	Non-executive Director
Stephen Layton	Non-executive Director

REVIEW & RESULTS OF OPERATIONS

The net result of operations after applicable income tax expense for the half year ended 31 December 2018 was a loss of \$749,339 (2017 Half Year Loss - \$815,137).

REVIEW OF OPERATIONS

Information on the operations and financial position of the Group, its business strategies and prospects for future financial years is detailed in the Review of Operations section of this Report.

FINANCIAL

The Company's cash position as at 31 December 2018 was \$454,138 (30 June 2018: \$602,675).

SUBSEQUENT EVENTS

No event has occurred subsequent to 31 December 2018 requiring disclosure in, or amendment to, these financial statements apart from:

- The appointment of Adrien Wing as Company Secretary on 1 February 2019 following David Clark ceasing that role on 31 January 2019; and
- The Company announcing on 28 February 2019 that Cronimet Holding GmbH's due diligence on the Mt Carbine Tungsten Project ("Project") is nearing completion and the contractual arrangements associated with their participation in the staged development of this Project is in the process of being finalised.

INDEPENDENCE DECLARATION

The Auditor's independence declaration as required under Section 307C of the Corporations Act 2001 is attached to this Report.

Signed at Melbourne this 13th day of March 2019 in accordance with a resolution of Directors.



R H Krause
Executive Chairman

2018 ended on an extremely positively note for Speciality Metals International Limited (“Speciality Metals” or “the Company”) with the Company entering into advanced negotiations with Cronimet Holding GmbH for their conditional participation in the staged development of the Company’s Mt Carbine Tungsten Project and to also enable the purchase of the Mt Carbine Quarry and Mining Leases ML 4867 and ML 4919.

Both parties are committed to finalising these arrangements within the shortest possible timeframe and are aiming to be in production by the end of the first half of 2019. In line with the Company’s staged development approach, Speciality Metals will also pursue the necessary permitting and approvals for its Open Pit Hard Rock Project. The Board would also like to thank shareholders for their patience.

The Board are excited to have the opportunity to partner with one of the world’s leading mining and raw material supply companies and looks forward to working closely with Cronimet in realising the value of its world-class Mt Carbine Tungsten Project.

Despite a large amount of the Board’s time being dedicated to the Company’s Mt Carbine Tungsten Project they have not lost sight of the Company’s other exploration concessions within Chile and New South Wales, Australia. The Board has also been actively working on the development of a comprehensive exploration program for all its tenement holdings which should be finalised during the first half of 2019.

DEVELOPMENT & EXPLORATION ACTIVITIES

MT CARBINE QUARRY & MINING LEASES

FINANCING ARRANGEMENTS

The Company was pleased to announce on 24 December 2018 that it was in advanced negotiations with Cronimet Holding GmbH for a conditional participation for the staged development of its Mt Carbine Tungsten Project and to enable the purchase of the Mt Carbine Quarry and Mining Leases, ML4867 and ML 4919, by the Company through alternative financial instruments.

The key terms of the conditional participation contained in a letter of intent along with those of the Sale and Purchase Agreement with Mt Carbine Quarries Pty Ltd are as follows:

Letter of Intent – Cronimet Holding GmbH

(a) **Counterparty:** Cronimet Holding GmbH (“CRONIMET”) is the counterparty to the letter of intent and forms part of the Cronimet Group (“Group”) which was founded in 1982 as a raw materials service provider and trader in Karlsruhe, Germany. The Group has grown organically since then to become a diversified commodity group with over 5,200 employees and activities in over 50 countries. CRONIMET operates a global supply chain for stainless steel, specialty steel raw materials and other strategic minerals, while it has significant expertise in the recovery of high-quality raw materials through latest technology and production methods.

(b) **Cash Advance:** CRONIMET will provide a cash advance of US\$3.5 million (~AUD\$4.9 million) by way of an off-take agreement defining the delivery of tungsten concentrate from the Mt Carbine Tungsten Project.

The Tailings Retreatment Plant will be recommissioned, and production will commence from the ~12 million tonnes of stockpiled material. CRONIMET will provide the technical expertise and assist with the refurbishment of the existing Tailings Retreatment Plant as well as sourcing the plant required to commence production from the stockpiled material. Subject to further due diligence, the Tailings and Stockpile projects may be undertaken by a newly formed joint venture company where it is intended that Speciality Metals and CRONIMET will each hold a 50% stake. Speciality Metals will also be entitled to receive a 2.5% royalty on the gross revenue of the newly formed joint venture company.

It is anticipated that production lead times will be minimal as both projects are fully permitted.

(c) **Equity Component:** The Company is also in advanced discussions with CRONIMET and institutional investor(s) on share placement opportunities. The proceeds from this share placement, together with the Cash Advance, will be used to complete the purchase of the Mt Carbine Quarry and Mining Leases, ML 4867 and ML 4919, under the terms and conditions disclosed below.

(d) **Offtake:** CRONIMET will secure the right to all offtake from the Mt Carbine Tungsten Project, including that from the Open Pit, on commercial terms yet to be agreed.

(e) **Conditions Precedent:** The cash advance is conditional upon the successful completion of test work on the tailings material and stockpiled crushed rock which has already been initiated and is expected to be completed within January 2019, further due diligence works by CRONIMET and shareholder approvals from either Party, if any should become necessary.

(f) **Expected Completion Date:** Subject to a favourable outcome as per (e), the Parties will use reasonable endeavours to enter into appropriate agreements within February 2019.

Sale & Purchase Agreement - Mt Carbine Quarries Pty Ltd

(a) **Agreement Counterparty:** Mt Carbine Quarries Pty Ltd (MCQ) is the Sale and Purchase Agreement counterparty. MCQ is a major supplier and trading partner of the Company and has been since 2008. In September 2008, the Company signed a Sub-lease Agreement with MCQ whereby the Company obtained the right to mine and produce tungsten (and any other metals) from the lease deposit with the intention that the Company and MCQ work together to optimise extraction of metal and production of construction and road aggregate. The initial 2008 agreement covered two granted Mining Leases, ML 4867 and 4919, totalling approximately 366.39 ha.

- (b) **Asset Purchase Description:** The conditional Sale and Purchase Agreement is for the purchase and 100% ownership of the Mt Carbine Quarry, as a going-concern including all plant and equipment, along with Mining Leases ML 4867 and ML 4919. The business of Mt Carbine Quarry is to crush rock from the mine waste stockpile and make different grades of road metal and construction material. The quarry will provide the Company with an invaluable source of cash flow from the existing quarry business and the associated quarry infrastructure will also be of significant benefit in the development of the Company's future mining operations. Ownership of the Mining Leases is also integral to the successful development of the Company's Mt Carbine Tungsten Project.
- (c) **Conditions Precedent:** Completion of the Sale and Purchase Agreement is conditional on the Company obtaining finance to complete the transaction. If finance is not obtained the Company and MCQ will be released from their respective obligations under the Sale and Purchase Agreement. The Company has undertaken to use its best endeavours to ensure that the condition precedent is satisfied and using debt as the principle source of funding, to minimise the transaction's dilutionary impact upon existing shareholders.
- (d) **Purchase Consideration:** Total consideration for the acquisition is AUD\$8,000,000. A deposit of AUD\$130,000 has been paid.

As announced on 28 February 2019 CRONIMET's due diligence on the Mt Carbine Tungsten Project ("Project") is nearing completion with the contractual arrangements associated with their participation in the staged development of this Project in the process of being finalised. Speciality Metals also received confirmation from CRONIMET that the crushing, tabling and assay results for the test work carried out on the tailings material and stockpiled crushed rock have been finalised and the results are in the process of being interpreted by their technical team. Some additional ultra-fine recovery test work is planned for the coming two weeks which will complete this segment of CRONIMET's due diligence.

In anticipation of the completion of the financing arrangements detailed in the ASX announcement dated 24 December 2018, Speciality Metals has now commenced work on the refurbishment of the Mt Carbine Retreatment Plant and has engaged an electrician as well as the services of one of the Company's former Plant Manager's to assist CRONIMET's Process Engineer and Metallurgist with their on-site assessment. The on-site assessment is being completed to support a later redesign of the Retreatment Plant, in order to accommodate the latest reclaim technology.

COMPETENT PERSONS' STATEMENT

The information in this Report that relates to Exploration Results and Mineral Resources and Ore Reserves is based on information compiled by Dr Andrew White, who is a Fellow of the Australian Institute of Geoscientists and a consultant to Carbine. Dr White has sufficient experience relevant to the style of mineralisation, mining and processing the type of deposit under consideration 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". Dr White consents to the inclusion of the matters based on his information in the form and context in which it appears.

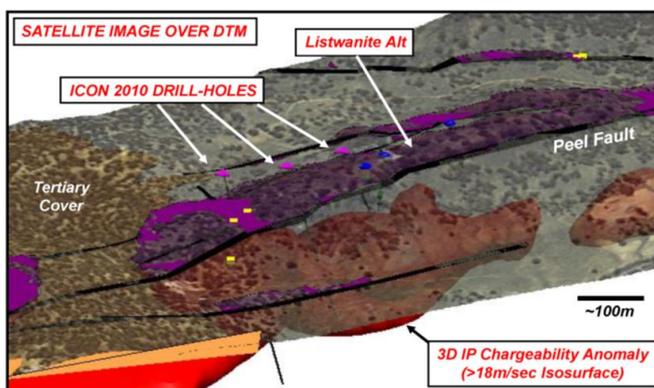
GOLD

CROW MOUNTAIN (NSW EL 6648)

The Crow Mountain tenement covers part of the Great Serpentine Belt in the western New England province of north eastern NSW. Shallow marine sediments of late Devonian age on the western side of the tenement are separated from much older deep marine sediments and intrusive rocks on the eastern side of the tenement by a major north-south trending structure, the Peel Fault. The Fault is well known for the belt of serpentinite, formed by alteration of pre-existing ultra-mafic intrusives exposed for several hundred kilometres along the Fault.

In the Crow Mountain tenement there is a large number of historical shallow gold workings dating from the 1860's. Records indicate that most of the historical workings were dug to extract gold from small, discontinuous quartz veins. Recent mapping by Speciality Metals' precursor companies showed that the serpentinite along the Peel Fault bifurcates in the Crow Mountain tenement and the majority of workings are between the two belts of serpentinite.

Several models of potential foci for gold mineralisation have been proposed for the Crow Mountain occurrences, but until now no satisfactory explanation or prediction of where economic gold might occur has been achieved.



Magnesite Hill Gold Prospect Icon 2010 Drill Hole locations

As announced in the September 2018 Quarterly Activities Report the Company has been reviewing all data and collecting some new data in order to derive a cogent model for the gold mineralisation in the tenement.

The Company's predecessor Icon Resources Ltd carried out geophysical and geochemical surveys concentrating mostly in the area of historical workings. In addition to the geochemical and geophysical data, surface mapping had shown that extensive hydrothermal alteration of the serpentinite to form a distinctive rock called listwanite had taken place along the Fault. The close resemblance of the features defining the geophysics, geochemistry and alteration in the Crow Mountain tenement to those of the Californian Motherlode, where gold is closely associated with listwanite alteration, led Icon Resources to drill three diamond core holes in mid-2010 at Magnesite Hill.

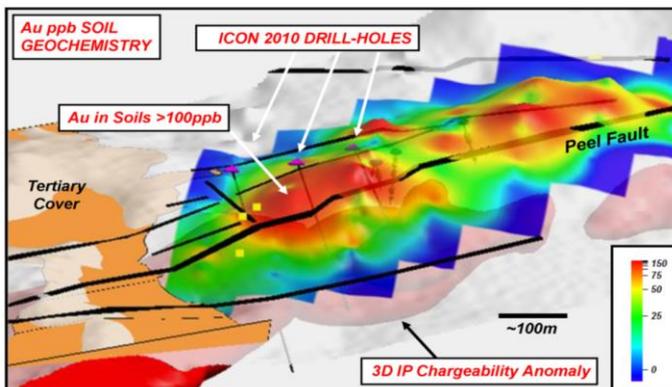
The holes were sited to test for gold mineralisation associated with a large IP chargeability anomaly coincident with surface geochemically anomalous gold, arsenic and antimony found in soil sampling, and a belt of listwanite.

The holes were collared in serpentinite on the eastern side of the Peel Fault and drilled through the fault into Devonian sediments on the western side of the fault. Each hole passed through zones of intense listwanite alteration, but also intersected intensely altered quartz monzodiorite dykes, mostly intruded into the Peel Fault zone itself. The Peel Fault was shown to be a zone up to 20m true width of intensely sheared, carbonaceous fault gouge, containing bleached fragments of the rocks adjacent to the fault.

Highly anomalous gold was intersected in each hole, with the best gold grades being found in metasediments in ICK002 (14m at 1.00g/t from 137m, including 2m at 3.69g/t from 139m), and in the altered dykes in ICK001(8m at 1.27g/t from 140m including 5m at 1.6g/t from 140m).

DRILL HOLE	From (m)	To (m)	Interval (m)	Au g/t
ICK001	76.3	78.45	2.15	1.85
	117.4	172	54.6	0.45
Including:	140	148	8	1.27
ICK002	113.4	119.4	6	0.67
	137	151	14	1.00
Including	139	141	2	3.69
ICK003	113.6	117	3.4	1.23

Magnesite Hill anomalous gold intercepts (extracted from Icon Resources June 2010 Quarterly Report)



Magnesite Hill Gold Prospect – Drilling targeting gold soil geochemical anomalies

Speciality Metals’ has recently undertaken a comprehensive review of the Magnesite Hill geological, geochemical and geophysical data and completed preliminary re-sampling of selected drill core from the 2010 Icon program to better define the lithologies hosting the gold mineralisation and the suite of associated pathfinder elements to further develop the exploration model.

The re-sampling indicates that the highest gold grades are associated with intensely sheared carbonaceous fault gouge intruded by strongly altered quartz monzodiorite dykes. This zone separates the variably altered ultramafic rocks from the sedimentary sequence to the west and represents the local expression of the crustal-scale Peel Fault structure. Gold is spatially associated with the dykes which intrude both the graphitic (fault) material and listwanite altered ultramafics but it is unclear if all mineralisation / alteration is genetically related to the intrusive event. The preliminary multi-element sampling confirms an elevated arsenic-antimony signature with some anomalous W + Mo associated with gold within the fault zone.

The fact that the gold mineralisation is strongest in carbonaceous fault gouge adjacent to altered late intrusive dykes has now focused future exploration on sampling this zone with the aim of determining potential resources.

Away from the Fault, in the zone between the two belts of serpentinite where most historical workings occur, and where most previous exploration was focused, there is a significant body of geochemical data from extensive surface sampling of rock chips, soils and waste dumps.

Analysis of this data indicates that in this zone, there appears to be no statistically significant relationship between gold values and the pathfinder elements and that gold is the only reliable geochemical indicator of mineralisation.

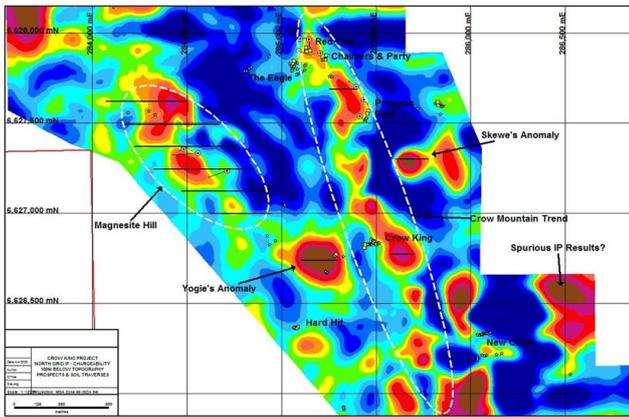
The Company plans to complete extensions and infilling of the existing soil geochemical coverage to delineate targets both within the major fault zone and related splay structures for follow-up drilling.



Interval assaying 8m at 1.27g/t Au from 140m in hole ICK001, showing carbonaceous gouge (dark grey) intruded by altered quartz monzodiorite dykes (light grey). It is now thought that most of the gold in this interval is in the carbonaceous gouge and this will be confirmed by further sampling.



Interval assaying 3.69g/t Au from 138.5m to 140.65m in the dark grey/black carbonaceous fault gouge adjacent to altered monzodiorite in Icon drill hole ICK 002.



The above image shows IP chargeability at 100m below surface in part of Crow Mountain EL6648. The yellow (low) to dark red (high) represents chargeability implied to be due to the presence of conducting minerals in the subsurface. Sulphide mineral grains disseminated in listwanite may be causing the chargeability response.

PANAMA HAT (NSW EL 8024)

The Company holds 100% of EL8024, Panama Hat, 20km south east of Broken Hill in NSW. This licence covers 80% of the historical gold workings in the Broken Hill district, mainly small-scale workings dating from the Depression years of 1930-32. The workings are distributed along an arcuate north to north east trending linear zone (Figure 1 above). Considerable previous exploration has been carried out by various companies in the licence area since 1980, but sampling and mapping by Speciality Metals indicates that the geological setting of the gold was not understood, nor were the prospects in the licence adequately tested.

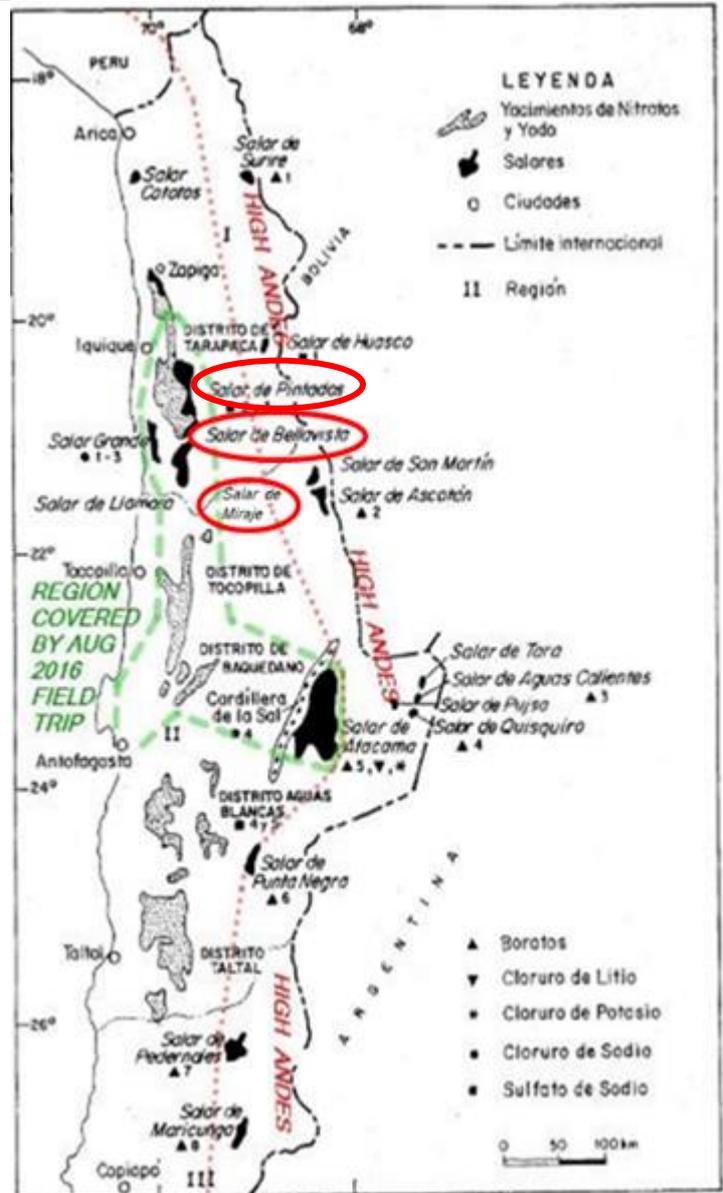
The Company's mapping indicates that the gold is hosted in pyrite (iron sulphide) bearing, subvertical quartz veins that strike right angles to the arcuate trend of old workings. This structural interpretation was found to be confirmed by NSW Geological Survey mapping but was not tested by previous explorers. As previously announced, sampling by Speciality Metals has determined that the near surface is likely to be intensely leached of gold, however sampling of waste dumps associated with deeper historical workings has identified gold values locally of bonanza grade (up to 83g/t Au).

Speciality Metals plans to drill a number of shallow RC holes to test the potential for oxide gold at open pit depths and has permitted 20 holes to enable this testing to commence.

DEVELOPMENT & EXPLORATION ACTIVITIES

CHILE

The Board have been working closely with the Company's Chilean consultants during the last half of 2019 to develop an exploration program for its exploration concessions which the Company anticipates should be finalised during the first quarter of 2019.



Summary map of Northern Chile, showing location of Salars de Miraje, Bellavista & Pintados

CORPORATE

CHANGE OF COMPANY SECRETARY

The Board announced on 31 January 2019 the appointment of Mr Adrien Wing as Company Secretary for the Company, effective from 1 February 2019.

Mr Wing is a certified practicing accountant. He previously practiced in the audit and corporate advisory divisions of a chartered accounting firm before working with a number of public companies listed on the ASX as a corporate and accounting consultant and Company Secretary.

The Board also advised that Mr David Clark would cease in his role as Company Secretary effective from 31 January 2019. The Board thanked Mr Clark for his dedication and service since his appointment to the role of Company Secretary in July 2014 and wished him every success in his future endeavours.



AUDITOR'S INDEPENDENCE DECLARATION UNDER SECTION 307C OF THE CORPORATIONS ACT 2001 TO THE DIRECTORS OF SPECIALITY METALS INTERNATIONAL LIMITED

I declare that, to the best of my knowledge and belief, during the half-year ended 31 December 2018 there have been:

- a. no contraventions of the auditor independence requirements as set out in the *Corporations Act 2001* in relation to the review, and
- b. no contraventions of any applicable code of professional conduct in relation to the review.

Nexia Melbourne Audit Pty Ltd
Melbourne

Geoff S. Parker
Director

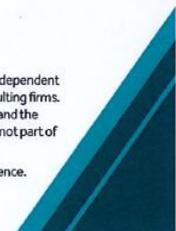
Dated this 13 day of MARCH 2019

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CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

Half-year ended 31 December 2018

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	Note	31 Dec 2018 \$	31 Dec 2017 \$
REVENUE	2	15,522	13,935
Administration expenses		(131,974)	(132,527)
Consultant expenses		(160,700)	(243,120)
Depreciation expense		(871)	(487)
Development and testwork costs		(51,604)	(104,676)
Employee benefits expense		(187,824)	(79,563)
Exploration expenditure		(172,111)	(176,802)
Loss on revaluation of financial assets		(4,382)	(68,174)
Occupancy costs		(17,422)	(14,197)
Other expenses		(37,973)	(9,526)
LOSS BEFORE INCOME TAX EXPENSE		(749,339)	(815,137)
Income tax expense		-	-
NET LOSS FOR THE HALF YEAR ATTRIBUTABLE TO MEMBERS OF THE PARENT ENTITY		(749,339)	(815,137)
Other comprehensive income		-	-
TOTAL COMPREHENSIVE INCOME/(LOSS) FOR THE HALF YEAR ATTRIBUTABLE TO MEMBERS OF THE PARENT ENTITY		(749,339)	(815,137)
Basic loss per share (cents)		(0.14)	(0.17)
Diluted loss per share (cents)		(0.14)	(0.17)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2018

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	Note	31 Dec 2018 \$	30 Jun 2018 \$
CURRENT ASSETS			
Cash and cash equivalents		454,138	602,675
Trade and other receivables	3	19,420	23,989
Financial assets	4	130,000	800,000
Prepayments		137,159	64,865
TOTAL CURRENT ASSETS		740,717	1,491,529
NON-CURRENT ASSETS			
Receivables		772,021	771,521
Plant and equipment		5,625	3,861
Deferred exploration and evaluation expenditure	5	596,066	596,066
Financial assets	4	1,933	6,317
TOTAL NON-CURRENT ASSETS		1,375,645	1,377,765
TOTAL ASSETS		2,116,362	2,869,294
CURRENT LIABILITIES			
Payables		81,167	164,582
Employee benefits	6	22,551	26,129
TOTAL CURRENT LIABILITIES		103,718	190,711
NON CURRENT LIABILITIES			
Employee benefits	6	6,643	6,147
TOTAL NON CURRENT LIABILITIES		6,643	6,147
TOTAL LIABILITIES		110,361	196,858
NET ASSETS		2,006,001	2,672,436
EQUITY			
Issued capital	7	3,553,567	3,553,567
Share-based payments reserve		86,675	437,615
Accumulated losses		(1,634,241)	(1,318,746)
TOTAL EQUITY		2,006,001	2,672,436

CONSOLIDATED STATEMENT OF CASH FLOWS

Half-year ended 31 December 2018

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	31 Dec 2018	31 Dec 2017
	\$	\$
CASH FLOWS FROM OPERATING ACTIVITIES		
Payment to suppliers and employees	(829,345)	(619,773)
Interest received	13,943	16,056
NET CASH FLOWS (USED IN) OPERATING ACTIVITIES	<u>(815,402)</u>	<u>(603,717)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Payments for the purchase of plant and equipment	(2,635)	-
Payments for Tenement Security Deposits	(500)	-
Payment for Non Refundable Security Deposit	-	(30,000)
Release of Refundable Security Deposit	670,000	-
NET CASH FLOWS FROM (USED IN) INVESTING ACTIVITIES	<u>666,865</u>	<u>(30,000)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from issue of shares	-	47,746
NET CASH FLOWS FROM (USED IN) FINANCING ACTIVITIES	<u>-</u>	<u>47,746</u>
NET INCREASE (DECREASE) IN CASH HELD	(148,537)	(585,971)
Add opening cash brought forward	<u>602,675</u>	<u>1,048,000</u>
CLOSING CASH CARRIED FORWARD	<u><u>454,138</u></u>	<u><u>462,029</u></u>

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Half-year ended 31 December 2018

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CONSOLIDATED	Attributable to shareholders of Speciality Metals International Ltd			
	Issued Capital \$	Accumulated Losses \$	Reserves \$	Total Equity \$
AT 1 JULY 2017	1,797,341	-	574,160	2,371,501
Loss for the period	-	(815,137)	-	(815,137)
Other comprehensive income	-	-	-	-
Total comprehensive loss	-	(815,137)	-	(815,137)
Transactions with owners in their capacity as owners:				
Shares issued during the half year	73,734	-	-	73,734
Options lapsed unexercised	-	140,316	(140,316)	-
Total transactions with owners in their capacity as owners	73,734	140,316	(140,316)	73,734
AT 31 DECEMBER 2017	1,871,075	(674,821)	433,844	1,630,098
AT 1 JULY 2018	3,553,567	(1,318,746)	437,615	2,672,436
Loss for the period	-	(749,339)	-	(749,339)
Other comprehensive income	-	-	-	-
Total comprehensive loss	-	(749,339)	-	(749,339)
Transactions with owners in their capacity as owners:				
Reduction of Reserve following prior period lapse of Options	-	433,844	(433,844)	-
Performance rights expense	-	-	82,904	82,904
Total transactions with owners in their capacity as owners	-	-	-	-
AT 31 DECEMBER 2018	3,553,567	(1,634,241)	86,675	2,006,001

1. BASIS OF PREPARATION OF THE HALFYEAR FINANCIAL REPORT

The Half Year Financial Report does not include all notes of the type normally included within the annual financial report and therefore cannot be expected to provide as full an understanding of the financial performance, financial position and financing and investing activities of the Company as the full financial report.

The Half Year Financial Report should be read in conjunction with the Annual Financial Report of Speciality Metals International Limited as at 30 June 2018.

It is also recommended that the Half Year Financial Report be considered together with any public announcements made by Speciality Metals International Limited during the half year ended 31 December 2018 in accordance with the continuous disclosure obligations arising under the Corporations Act 2001.

(a) Going Concern Basis for Preparation of Financial Statements

These financial statements have been prepared on the going concern basis which contemplates the continuity of normal business activities and the realisation of assets and discharge of liabilities in the normal course of business.

As disclosed in the financial statements, the Consolidated Entity incurred a net loss of \$749,339 and net operating cash outflows of \$148,537 for the period ended 31 December 2018. As at 31 December 2018 the Consolidated Entity had cash reserves of \$454,138.

The ability of the Consolidated Entity to continue as a going concern is principally dependent upon one or more of the following:

- the ability of the Company to raise additional capital in the future; and
- the successful exploration and subsequent exploitation of the Consolidated Entity's tenements.

These conditions give rise to material uncertainty which may cast significant doubt over the Consolidated Entity's ability to continue as a going concern.

The Directors believe that the going concern basis of preparation is appropriate due to the following reasons:

- To date the Consolidated Entity has funded its activities through the issuance of equity securities, and it is expected that the Consolidated Entity will be able to fund its future activities through further issuances of equity securities; and
- The Directors believe there is sufficient cash available for the Consolidated Entity to continue operating.

Should the Consolidated Entity be unable to continue as a going concern, it may be required to realise its assets and extinguish its liabilities other than in the ordinary course of business, and at amounts that differ from those stated in the financial statements.

(b) Statement of Compliance

These interim financial statements for the half year reporting period ended 31 December 2018 have been prepared in accordance with Australian Accounting Standard 134 Interim Financial Reporting and the Corporations Act 2001.

The Half Year Financial Report has been prepared on a historical cost basis and held for trading financial assets have been measured at fair value through profit or loss.

For the purpose of preparing the Half Year Financial Report, the half year has been treated as a discrete reporting period.

(c) Significant Accounting Policies

The half year financial statements have been prepared using the same accounting policies as used in the annual financial statements for the year ended 30 June 2018

NOTES TO THE HALF YEAR FINANCIAL STATEMENTS

2. REVENUE

	31 December 2018	31 December 2017
	\$	\$
Interest received	13,404	14,360
Diesel fuel rebates	2,119	-
(Loss) Profit on Disposal of Non Current Asset	-	(425)
	<u>15,522</u>	<u>13,935</u>

3. TRADE AND OTHER RECEIVABLES

	31 December 2018	30 June 2018
	\$	\$
Interest receivable	2,539	3,078
GST receivable	16,881	20,911
	<u>19,420</u>	<u>23,989</u>

4. FINANCIAL ASSETS

	31 December 2018	30 June 2018
	\$	\$
Current		
Non refundable deposit for purchase of Mt Carbine Quarries ¹	130,000	130,000
Refundable deposit for purchase of Mt Carbine Quarries ¹	-	670,000
Total current	<u>130,000</u>	<u>800,000</u>
Non current		
Other:		
- Shares in listed companies: Force Commodities Ltd (4CE)	1,933	6,317
Total non current	<u>1,933</u>	<u>6,317</u>

¹ On 18 April 2018, the Company executed a Sale and Purchase Agreement (SPA) with Mt Carbine Quarries Pty Ltd (MCQ) for the acquisition of the Mt Carbine Quarry, as a going-concern including all plant and equipment, along with Mining Leases ML 4867 and ML 4919. \$670,000 of the total deposit paid was subsequently released to Speciality Metals International Limited during the second half of 2018.

5. DEFERRED EXPLORATION AND EVALUATION EXPENDITURE

	31 December 2018	30 June 2018
	\$	\$
Costs brought forward	596,066	596,066
Costs incurred during the period	-	-
Exploration and evaluation expenditure written down	-	-
Costs carried forward	<u>596,066</u>	<u>596,066</u>

Exploration expenditure costs carried forward are made up of:

Expenditure on joint venture areas	-	-
Expenditure on non-joint venture areas	596,066	596,066
Costs carried forward	<u>596,066</u>	<u>596,066</u>

Recoverability of the carrying amount of deferred exploration and evaluation expenditure is dependent on the successful development and commercial exploitation or sale of the areas of interest. Management reassess the carrying value of the Group's tenements at each half year, or at a period other than that, should there be an indication of impairment.

6. EMPLOYEE BENEFITS

	31 December 2018	30 June 2018
	\$	\$
Current		
Annual and long service leave provision	22,551	26,129
	<u>22,551</u>	<u>26,129</u>
Non-Current		
Annual and long service leave provision	6,643	6,147
	<u>6,643</u>	<u>6,147</u>

7. ISSUED CAPITAL

	31 December 2018	30 June 2018
	\$	\$
Share capital		
554,876,418 (30 June 2018: 554,876,418) ordinary shares	3,553,567	3,553,567
	<u>3,553,567</u>	<u>3,553,567</u>

	Number of shares	\$
(a) Movements in ordinary share capital		
1 July 2018 brought forward	554,876,418	3,553,567
Balance as at 31 December 2018	<u>554,876,418</u>	<u>3,553,567</u>

(b) Unlisted Options and Performance Rights	Issue Date	Number of Performance Rights	Vesting conditions	Maturity
Performance Rights				
1 July 2018 brought forward	22-06-18	25,000,000	**	22-06-20
Balance as at 31 December 2018		<u><u>25,000,000</u></u>		

** Performance Rights were granted to Directors as remuneration approved by shareholders at the 2018 General Meeting held on 22 June 2018. The key terms of the performance rights, in accordance with the terms approved by shareholders, are as follows:

Type of Performance Right:	Each Right entitles the Holder to 1 fully paid ordinary share in Speciality Metals International Limited (SEI) upon exercise.
Expiry Date:	22 June 2020 (2 years after the issue date)
Vesting:	The Rights vest upon satisfaction of the following conditions: (a) the Company completes the acquisition of the Mt Carbine Quarry and associated mining leases; or (b) the Company share price on ASX trades on at least 3 consecutive business days above \$0.05.

No options or performance rights were granted to Directors or key employees during the half year ended 31 December 2018. No options or performance rights lapsed during the reporting period without exercise.

8. CONTINGENT ASSETS AND LIABILITIES

The Group has provided guarantees totaling \$771,921 in respect of mining tenements and environmental bonds. These guarantees in respect of mining tenements are secured against deposits with the relative State Department of Mines. The Company does not expect to incur any material liability in respect of the guarantees.

On 18 April 2018, the Company executed a Sale and Purchase Agreement (SPA) with Mt Carbine Quarries Pty Ltd (MCQ) for the acquisition of the Mt Carbine Quarry, as a going-concern including all plant and equipment, along with Mining Leases ML 4867 and ML 4919. The purchase is subject to due diligence, financing and Board approval. As at the date of these financial statements, the purchase had not yet been finalised, pending the outcome of the aforementioned conditions. Should all conditions be met, the Company will be required to pay the purchase price and purchase the Quarry and Mining Leases. In addition, should all conditions be met, and the purchase be made, the Company will likely be required to pay additional guarantees in respect of mining tenements and environmental bonds. At the date of these financial statements the amounts in respect of the additional guarantees were not known.

9. SEGMENT INFORMATION

During the half-year the Company operated principally in one business segment being mineral exploration, mining evaluation and development and in two (2) geographical segments being Australia and Chile. For the half-year to 31 December 2018, there is no revenue from either segment and no assets are recorded for the Chilean segment.

10. SUBSEQUENT EVENTS

No event has occurred subsequent to 31 December 2018 requiring disclosure in or amendment to, these financial statements, apart from:

- The appointment of Adrien Wing as Company Secretary on 1 February 2019 following David Clark ceasing that role on 31 January 2019; and
- The Company announcing on 28 February 2019 that Cronimet Holding GmbH's due diligence on the Mt Carbine Tungsten Project ("Project") is nearing completion and that the contractual arrangements associated with their participation in the staged development of this Project is in the process of being finalised.

In accordance with a resolution of the Directors of Speciality Metals International Limited, I state that:

In the opinion of the Directors:

- a) the financial statements and notes of the Company:
 - i) give a true and fair view of the Company's financial position as at 31 December 2018 and the performance for the half-year ended on that date; and
 - ii) comply with Accounting Standard AASB 134 "Interim Financial Reporting" and the Corporations Regulations 2001; and
- 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.

On behalf of the Board



R H KRAUSE
Executive Chairman

Melbourne, 13 March 2019



INDEPENDENT AUDITOR'S REVIEW REPORT TO THE MEMBERS OF SPECIALITY METALS INTERNATIONAL LIMITED

Report on the Half-Year Financial Report

We have reviewed the accompanying half-year financial report of Speciality Metals International Limited, which comprises the condensed consolidated statement of financial position as at 31 December 2018, the condensed consolidated statement of profit or loss and other comprehensive income, condensed consolidated statement of changes in equity and condensed consolidated statement of cash flows for the half-year ended on that date, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration.

Directors' Responsibility for the Half-Year Financial Report

The directors of the consolidated entity are responsible for the preparation of the half-year 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 half-year financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the consolidated entity's financial position as at 31 December 2018 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134: *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of Speciality Metals International Limited, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of a half-year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Independence

In conducting our review, we have complied with the independence requirements of the *Corporations Act 2001*. We confirm that the independence declaration required by the *Corporations Act 2001* has been provided to the directors of Speciality Metals International Limited.

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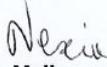
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Conclusion

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the half-year financial report of Speciality Metals International Limited is not in accordance with the *Corporations Act 2001* including:

- a. giving a true and fair view of the consolidated entity's financial position as at 31 December 2018 and of its performance for the half-year ended on that date; and
- b. complying with Accounting Standard AASB 134 *Interim Financial Reporting* and *Corporations Regulations 2001*.


Nexia Melbourne Audit Pty Ltd
Melbourne


Geoff S. Parker
Director

Dated this 13 day of MARCH 2019



SPECIALITY METALS INTERNATIONAL LIMITED

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