Speciality Metals International Limited

ABN: 77 115 009 106 (ASX: SEI)

2018 Annual Report

CORPORATE DIRECTORY

Directors

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

Company Secretary

David Clark

Registered Office

Level 17

500 Collins Street

Melbourne VIC 3000

Telephone: +61 (0)3 9614 0600

Website: www.specialitymetalsintl.com.au

Email: info@specialitymetalsintl.com.au

Share Register

Computershare Investor Services Pty Ltd

Yarra Falls

452 Johnston Street

Abbotsford VIC 3067

Telephone (within Australia): 1300 850 505

Telephone (internationally): +61 (0)3 9415 4000

Auditors

Nexia Melbourne Audit Pty Ltd

Level 12, 31 Queen Street

Melbourne VIC 3000

Telephone: +61 (0)3 8613 8888

Facsimile: +61 (0)3 8613 8800

Stock Exchange Listing

Listed on the Australian Securities Exchange (ASX)

ASX Code: SEI

ABN: 77 115 009 106

CONTENTS

CHAIRMAN'S REPORT

Dear Fellow Shareholders,

Speciality Metals International Limited ("Speciality Metals" or "the Company") has endured another challenging year. These challenges have centred around the negotiations for the purchase and associated financing of the Mt Carbine Quarry and Mining Leases, the development of the Chilean lithium, boron and potassium concessions, the work on our NSW gold assets and of more recent times, uncertain market conditions for the small cap resources sector.

A positive however for the year has been the increase in tungsten and commodity prices generally. We started the financial year with an APT price of approximately USD $200 per MTU and seen it climb as high as USD $340 and retreat to a respectable USD $280-$290 per MTU at the time of writing this report. The gold price has remained reasonably stable and lithium prices have also consolidated. Many independent experts are calling the immediate outlook for commodity prices to be steady to firmer in the coming twelve months.

In relation to the proposed Mt Carbine Quarry acquisition Speciality Metals has signed and extended a Sales and Purchase Agreement with Mt Carbine Quarries Pty Ltd for the purchase of the Quarry at Mt Carbine and the associated Mining Leases. The terms of this agreement remain commercial in confidence until the transaction is completed. Whilst the financing has proved to be somewhat difficult, with our traditional banks having no interest and private equity funds being outrageously expensive, the Company has managed to engage with several parties that are currently undertaking due diligence or reviewing this financing opportunity. Speciality Metals is very focused on obtaining a debt line to complete this purchase. Whilst the Company is conscious of the perception in the market place that this transaction will need to be finalised via a share placement I can confirm that it is the Company's intention to secure a finance package which does not have an overly dilutive impact on existing shareholders.

The purchase of the Mt Carbine Quarry and associated Mining Leases is of strategic importance to the Company. With the implementation of x-ray ore sorting equipment and some upgrading of the existing Tailings Retreatment Plant, it is anticipated that the Company could be producing tungsten concentrate in approximately nine months from the finalisation of the Mt Carbine purchase. One of the most significant benefits is that by fully exploiting the synergies between the quarry and the Company's proposed mining activities the anticipated production costs per MTU of concentrate would be within the bottom quartile of producers globally. In addition, the capital cost to re-commence production would be significantly reduced via the utilisation of the quarry's existing infrastructure. This would position the Company to further evaluate the hard rock open pit project and bring Mt Carbine back into production as a significant global tungsten producer.

Work has also progressed in Chile albeit a little more slowly than anticipated due to management's time being largely devoted to Mt Carbine. Also, drilling in brines is a little more difficult than hard rock drilling and a lot more care is required to ensure the environment, particularly the water table, is properly maintained. The Company has engaged in-county professionals to assist with the review, planning and implementation of its upcoming drilling program.

Work is also being undertaken on the gold assets with the Company's Geological Team currently assessing these assets and I would expect there to be some news soon.

Your Chairman and Board are working tirelessly to finalise the Mt Carbine acquisition and continue to progress the development and exploration of its current asset portfolio in order to maximise shareholder value.

Yours truly,

Russell Krause
Executive Chairman

REVIEW OF OPERATIONS

The Board of Speciality Metals International Limited ("Speciality Metals" or "the Company") has successfully navigated the Company through a number of significant changes during the 2017-2018 financial year to achieve its goal of becoming a diversified speciality resource, mining and exploration Company whilst maintaining its world-class tungsten assets in Far North Queensland.

On 14 November 2017 the Company welcomed Stephen Layton as a Non-executive Director and also announced the changing of its name from Carbine Tungsten Limited to Speciality Metals International Limited, to better reflect the diversified nature of the Company's newly expanded exploration portfolio. Mr Russell Krause also assumed the role of Executive Chairman on 14 November 2017 whilst executive replacement options to complement the Company's diversification and growth opportunities are explored.

The Company also achieved a significant milestone in the development of its world-class Mt Carbine Tungsten Project with the Sale and Purchase Agreement (SPA) with Mt Carbine Quarries Pty Ltd (MCQ) being executed in April 2018. This Agreement covers 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 and is subject to Speciality Metals obtaining adequate financing.

Upon the successful completion of the SPA Speciality Metals intends to commence early production at the Mt Carbine site via the use of ore-sorting technology to high-grade the ore contained within the existing stockpile. It is also intended to dedicate a portion of the funds received from the Company's quarrying and mineral processing activities to undertake further exploration within its highly prospective Iron Duke tenement, where previous mapping and sampling activities have indicated an extensive strike length that may be equal to, or even greater than, the existing Mt Carbine open-pit tungsten deposit.

During this period the Company's wholly owned subsidiary, Special Metals Chile SpA, was also granted 25 Exploration Concessions within northern Chile being Miraje 1-5, Bellavista 1-5 and Pinta 1-15. Following the completion of its latest sampling program the Company's technical personnel are currently undertaking further hydrogeological work as well as assessing and evaluating possible drill targets. Once this work is completed a drilling update will be provided.

The Board looks forward to a productive year ahead as it actively pursues the discovery of viable resources within its highly prospective exploration portfolio along with the development of its world-class Mt Carbine Tungsten Project.

The following commentary provides an overview of the activities undertaken during this period.

DEVELOPMENT & EXPLORATION ACTIVITIES

LITHIUM, CHILE

EXPLORATION CONCESSIONS GRANTED

MIRAJE 1-5

Speciality Metals' predecessor Carbine Tungsten Limited (ASX: CNQ) announced on 19 July 2017 that it had received official confirmation of the grant of 5 exploration concessions in northern Chile. The concessions are valid till 10 May 2019 and cover part of the Salar de Miraje, an enclosed rift basin in the Atacama Desert. On present evidence, Salar de Miraje is geologically analogous to the Salar de Atacama rift basin 150km to the south east, that produces a third of the world's lithium from brines within the sediments deposited in the basin.

Analysis of surface samples taken by the Company of evaporative saline crusts in Salar de Miraje indicate that the crusts contain anomalous lithium, boron and potassium (Table 1). Reconnaissance sampling conducted by the Company has determined that lithium values in saline crust samples that exceed 50ppm lithium appear to be anomalous. The significance of these anomalous values will be tested by drilling proposed for later this year. The drilling will be aimed at sampling brines anticipated to be contained in early rift fill sediments within the Salar.

Salar de Miraje has been a significant historical producer of nitrates from the margin of the Salar, and iodine is currently being produced from mine dumps left by nitrate mining just west of the concessions granted to the Company.

Table 1. Salar de Miraje surface reconnaissance samples.

SAMPLE	Li	Mg	K	Na	B	Ca	S	As	Sb	Mo	Cu	Zn	Pb	Ag	Fe	P	Mn
DESCR	ppm	%	%	%	ppm	%	%	ppm	ppm	ppm	ppm	ppm	ppm	ppm	%	ppm	ppm
Salar de Miraje																	
L16	90	0.39	0.18	0.22	110	9.69	8.33	46	0.79	1.9	22	30	8	0.02	2.15	490	421
L17	51	1.02	0.73	9.96	1240	3.9	3.95	33	0.66	2.9	21	29	6	0.18	1.47	280	293
L212	17.3	0.46	0.31	>10.0	1120	0.45	0.77	5	0.1	0.79	13.8	45	1.9	0.94	0.09	40	26
L213A	93.5	1.15	0.72	3.97	840	7.65	8.06	50.1	0.76	3.6	19.6	27	7.1	0.02	2.2	490	409
DESCR	ppm	ppm	ppm	ppm	ppm	ppm	ppm	ppm	ppm	ppm	ppm	ppm	ppm	ppm	ppm	ppm	ppm
L303	50	>10000	12000	122500	2040	320		<10	<5	2	<1	<100	<5	<1	<100	<100	<1

All samples except L303 are surface halite crust samples, L303 is a brine sample from iodine recovery ponds.

(Refer announcement "Chilean Exploration Concessions Granted" dated 19 July 2017 for JORC Code 2012, Edition – Table 1 content)

Google image showing location of Salar de Miraje concessions in relation to cities of Antofagasta and Iquique, northern Chile

Google image showing area covered by 5 exploration concessions, Salar de Miraje, Atacama Desert, Northern Chile, and location of reconnaissance surface samples. Historical nitrate dumps in south west corner are being reworked to recover iodine.

REVIEW OF OPERATIONS

BELLAVISTA 1-5

On 11 January 2018 the Company announced that an additional five (5) Exploration Concessions over a key area of Salar de Bellavista (Bellavista 1-5), had been granted by the Chilean Courts.

These concessions cover a significant portion of the western part of Salar de Bellavista, in a situation tectonically analogous to, but north-west of, Salar de Atacama in northern Chile, where two companies, Albemarle Corp and SQM S.A. produce a third of the world's lithium from lithium brines. They are also well situated to existing infrastructure being close to the Pan American Highway and lithium processing infrastructure at the port of Antofagasta.

Speciality Metals has focused on salars geologically older but at a lower topographic elevation than the salars where lithium is produced by evaporation of brines pumped from the subsurface, anticipating that evaporation at the lower elevations will favour lower operating costs if the Company's exploration for lithium brines in the salar is successful. Salar de Bellavista is at an elevation of ~1000m, at which elevation evaporation is expected to be year-round and faster than at Salar de Atacama (elevation ~2000m). Except for this difference, the salars that are the focus of Speciality Metals' exploration are geologically similar to the salars already producing lithium or that are known to contain lithium resources. The Company's target salars appear to be fed in part from hot springs and the evaporite minerals already produced from the target salars (nitrates and borates) indicate the typical salar closed hydrological basin dominated by evaporation. In addition, the host sediments within the target salars are identical to the sediments that host the lithium brines at higher altitudes and consist of evaporative carbonate-dominated sediments.

Strongly anomalous lithium and boron values have been obtained from surface sampling of salt crusts and brines in surface depressions in the area surrounding the Salar de Bellavista and the adjacent Salar de Miraje concessions where the Company has already been granted 5 exploration concessions. Of the 10 salt crust samples taken in Salar de Bellavista during the Company's initial research and reconnaissance in 2016, all but two were anomalous, containing from 50 to 274ppm lithium and of these, four had associated elevated boron values ranging from 850 to 1820ppm boron (Refer Table 1 below).

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

Table 1. Summary of analyses of salt crust samples, Salars de Miraje and Bellavista

Element	Li	Mg	K	Na	B	Ca	S	As	Sb	Mo	Cu	Zn	Pb	Ag	Fe	P	Mn	Al
Measure	ppm	%	%	%	ppm	%	%	ppm	ppm	ppm	ppm	ppm	ppm	ppm	%	ppm	ppm	%
Salar de Miraje																		
L16	90	0.39	0.18	0.22	110	9.69	8.33	46	0.79	1.9	22	30	8	0.02	2.15	490	421	0.65
L17	51	1.02	0.73	9.96	1240	3.9	3.95	33	0.66	2.9	21	29	6	0.18	1.47	280	293	1.27
L18	79	1.58	1.07	>10.0	1920	1.29	9.34	68	0.31	9.7	11	17	5	0.02	0.86	220	311	0.35
L19	94	2.25	2.35	>10.0	1060	2.34	7.98	44	0.32	5.8	20	36	5	0.06	0.89	270	206	0.7
Salar de Bella Vista																		
L35	274	0.42	0.98	>10.0	660	3.48	5.48	108	0.6	2.6	8	17	3	0.05	0.48	640	110	0.29
L36	31	0.23	0.77	>10.0	140		4.52	31	0.15	2.1	4	7	1	0.02	0.18	190	32	0.09
L56	38	0.62	0.33	>10.0	1390	6.45	6.84	26	0.32	3.9	9	17	4	0.13	0.95	500	162	0.35
L57	68	0.18	0.27	>10.0	310	3.36	3.48	9	0.05	0.9	4	25	1	0.34	0.33	90	58	0.11
L58	71	0.86	0.31	2.01	480	15.25	>10.0	11	0.47	0.8	12	33	6	0.03	1.5	280	156	0.62
L67	50	0.41	0.45	>10.0	160	12.05	>10.0	3680	3.36	0.4	4	8	1	0.32	0.03	30	9	0.02
L71	131	0.64	0.27	>10.0	1820	8.01	>10.0	523	2.04	1.3	17	18	4	0.18	0.92	1130	139	0.33
L72	127	0.19	0.45	>10.0	340	11.95	>10.0	264	0.59	0.6	5	17	0	0.07	0.06	140	81	0.04
L73	75	0.4	0.27	>10.0	1480	12.2	>10.0	748	8.04	0.4	7	7	3	0.88	0.17	350	36	0.09
L74	23	0.22	0.09	>10.0	120	1.79	3.3	95	2.35	0.4	4	13	2	-3.85	-2.85	-1.85	-0.85	0.15

PINTA 1 – 15

The granting of the final group of fifteen (15) Exploration Concessions over a key area of Salary de Pintados (Pinta 1-15) was announced on 14 March 2018.

Pinta 1 – 15 covers a significant portion of the western part of Salar de Pintados, in a situation tectonically analogous to, but north-west of, Salar de Atacama in Northern Chile, where two companies, Albemarle Corp and SQM S.A. produce a third of the world's lithium from lithium brines. They are also well situated to existing infrastructure being close to the Pan American Highway and lithium processing infrastructure at the port of Antofagasta.

All Exploration Concessions (Mirage 1-5; Bellavista 1-5 and Pinta 1-15) are held by Speciality Metal's wholly owned Chilean subsidiary company, Speciality Metals Chile SpA.

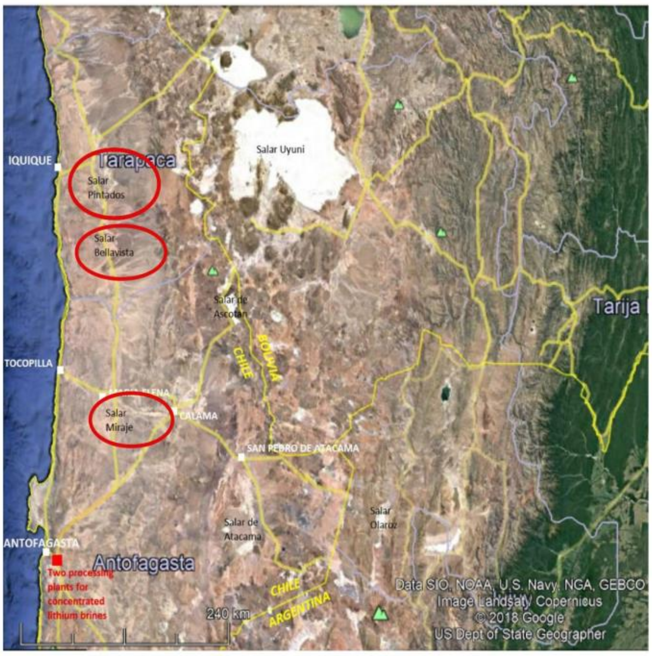
EXPLORATION, CHILE

As announced on 9 February 2018 a detailed sampling program was conducted by the Company in January 2018 to delineate new lithium targets within its areas of interest. Previous sampling (see announcements dated 18 July 2017 and 17 January 2018) have provided strong encouragement, from anomalous lithium content in surface evaporative crusts and brines, that lithium brines will be found to occur in the subsurface. The sampling conducted in 2018 was aimed at determining possible lithium occurrences in hard rock in the same environment.

The Company's concessions are within salars in the central belt of northern Chile, all at an altitude of around 1000m and the salars typically have a surface salt crust. The salars are formed in hydraulically closed basins formed by uplift and rifting of the western margin of South America. The search for lithium brines is focused on the salars because it is anticipated that evaporation over time has concentrated lithium in ground waters trapped in these salars. The fact that this evaporation has taken place is confirmed by the presence of modern salt crust and the historic nitrate and borax mining operations in the salars, both deposit types being the result of evaporation. The salars offer ideal situations for the construction of evaporation ponds on their flat surfaces, with the intention of pumping lithium bearing ground waters to the surface and concentrating the lithium by further evaporation in the ponds, prior to shipment to processing facilities.

The adjacent Google Earth map shows the main salars (=salt lakes) in Chile-Bolivia-Argentina "lithium triangle", highlights the areas of interest for Speciality Metals and the location of two processing plants in which concentrated lithium brines from Salar de Atacama are being converted into products exported through Antofagasta and Meijillones ports. SEI decided to explore for new lithium resources in Chile because of the following obvious advantages:

- Much higher evaporation rates than in Bolivia and Argentina;
- Lower elevations (100–2300m, compared with 3600 – 4100m in Bolivia and Argentina); and
- Considerably better infrastructure (ports, multi-lane highways, railways, power generation and powerlines, a full range of contractors and skilled workforce servicing copper mining industry that produces 1/3 of World copper).



OUTSTANDING HIGH SURFACE LITHIUM VALUES – NORTHERN CHILE SAMPLING PROGRAM

On 11 April 2018 Speciality Metals was pleased to announce that its had obtained some outstanding sample results from its latest sampling program within its exploration concessions over parts of Salar de Pintados and Salar Bellavista, in the Atacama Region of Northern Chile (Figure 1).

Figure 1. Location of concessions Salar de Pintados and Bellavista in northern Chile

Sampling was focused on surface saline crusts showing strong evidence of evaporation of subsurface brines to the surface. In particular, a main anomalous population ranging from 400ppm to 2,360ppm lithium was obtained from samples along the western margin of Salar de Pintados and the northern margin of Salar Bellavista. These values fall within or exceed the range of lithium brine concentrations exploited by existing lithium brine producers and are one or more orders greater than lithium values in surface samples from Salar de Atacama, where currently a third of the world's lithium is produced.

The areas of very high lithium values are surrounded by larger areas of strongly anomalous lithium values ranging from 150ppm to 400ppm (refer Table 1 on Page 7). Confirmation of lithium concentrations in the subsurface will depend on drilling results but in the meantime the sample results appear to strongly confirm SEI's exploration model.

It is anticipated that the company may apply for more concessions as sampling outside its existing concessions has indicated further opportunities for lithium discovery.

At the same time the sampling has obtained some highly anomalous boron values ranging up to 7,000ppm boron. Analysis of the sample data indicates that the boron values are not related to lithium, that is, the boron values may indicate boron mineralisation separate to and in addition to potential lithium enrichment. Magnesium values in samples with high lithium content indicate acceptable levels of magnesium which if evaporation is used in any future lithium production, is potentially an important economic factor in lithium recovery.

Geophysical interpretation:

Geophysical interpretation of airborne magnetic data indicates that the Company's concessions (15 over Salar de Pintados and 5 over Salar Bellavista) are ideally situated in the best part of the basins. The Company's interpretation of the magnetic data indicates that the modern salars conceal ancestral closed basins that are smaller than the modern day salars and are now the targets in SEI's lithium search. The ancestral basins were formed between complex basement highs that have a general west-south-west trend. SEI's concessions cover the parts of each ancestral basin where there is the greatest potential thickness of sedimentary fill (Figure 2).

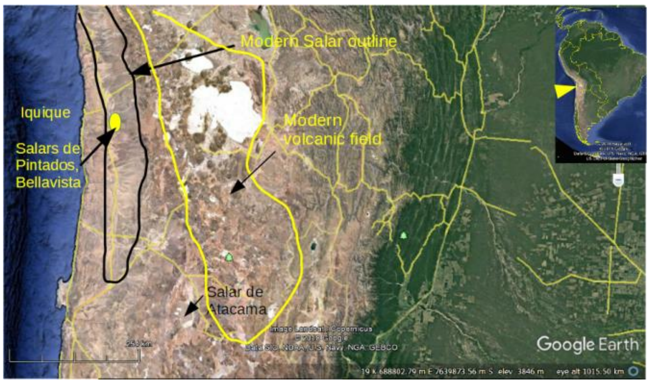


Figure 2. Location of Salars de Pintados and Bellavista with respect to modern salar (the Pampa Tamarugal).

At present, Salar de Pintados lies at the southern end of a very extensive closed basin (the Pampa Tamarugal) that extends north to the Peruvian border (Figure 2) and is separated from Salar Bellavista to the south by a relatively low divide. Both salars are at an elevation of around 1,200m and are receiving sediment from the Andes mountain ranges to the east (which range in elevation from 2,200m to 5,500m).

Field reconnaissance indicates that beneath a relatively thin, recent evaporative and clastic sediment cover, the concealed ancestral basins are likely to contain several hundred metres of Rio Loa Formation, an evaporative, carbonate dominated sequence (Figure 3) that extends throughout the Atacama region as the main sedimentary fill in a series of enclosed basins. One of these, Salar de Atacama, hosts the brines exploited by the two major lithium producers in Chile, SQM and Albemarle. Apart from dominant evaporative carbonates (limestone and dolomite) the Rio Loa Formation contains lenses of coarse sand and gravels, probably laid down during flash flooding events in the past. These clastic lenses are anticipated to be the main aquifer from which any brines might be produced and drilling will be required to establish their extent, however surface exposures indicate that the lenses are likely to have excellent porosity and permeability characteristics for future brine production.

Figure 3. Exposure of Rio Loa Formation, southern margin of Salar de Atacama.

The next step in testing the results will be a drilling program. Work is now focused on the selection of a drilling method that will safely deliver reliable samples and once this is done, identifying competent drilling contractors to tender for the work. From the results gathered to date the Company's technical team are also of the view that further hydrogeological work needs to be completed prior to the implementation of an exploratory drilling program. The preferred drill targets will be the greatest thickness of sedimentary fill coincident with the strongest surface lithium sample anomalies, anticipating that this will provide firstly, a larger subsurface brine reservoir opportunity and secondly, that in general, brine grades as reported by existing producers appear to increase with depth in the sedimentary basin fill.

The Board are extremely pleased with the outstanding sample results it has received to date and looks forward to providing further details on its upcoming drilling program once the above work has been completed.

Table 1. Lithium, Boron, Potassium and Magnesium analyses of all samples taken in Salars de Bellavista and Pintados concessions held by SEI.

Salar Bellavista	Li ppm	B ppm	K %	Mg %	N (m)	E (m)
L237	172	130	0.5	0.7	7713613	436769
L248	171	100	0.5	1.1	7714931	436292
L236	162	150	0.3	1.0	7713613	436769
L246	115	490	0.6	1.0	7714931	436292
L243	103	60	0.6	0.8	7711588	437493
L244	102	40	0.3	0.3	7710823	437823
L242	81	70	0.2	0.4	7711588	437493
L245	77	60	0.6	0.8	7710823	437823
L238	73	70	0.2	0.4	7712550	437149
L235	68	60	0.2	0.2	7713613	436769
L247	40	150	0.3	0.4	7714931	436292
Salar Pintados	**Li ppm**	**B ppm**	**K %**	**Mg %**	**N (m)**	**E (m)**
L455	2630	180	2.0	0.1	7733769	416437
L252	1330	2240	4.4	0.7	7720461	432497
L462	1290	200	3.1	0.6	7728429	422833
L459	1080	170	2.9	0.6	7729969	420971
L460	900	230	1.5	0.5	7729143	421973
L60	820	3490	2.2	0.5	7725118	433196
L253	780	2420	2.0	1.0	7720838	431939
L458	590	190	1.9	0.5	7730501	420330
L468	338	5760	0.8	0.7	7724166	433597
L471	311	990	1.9	1.0	7722879	434151
L450	297	310	0.6	0.4	7731539	419306
L461	288	150	0.7	0.9	7728807	422374
L258	191	710	1.9	0.6	7727773	423627
L470	177	4420	0.6	1.0	7724166	433597
L472	151	390	1.2	0.6	7722879	434151
L454	109	100	0.5	0.4	7732628	417756
L257	87	590	1.4	0.4	7727027	424532
L256	55	440	0.7	0.5	7724501	427599
L456	21	30	0.1	0.2	7734351	415835

REVIEW OF OPERATIONS

GOLD

CROW MOUNTAIN – EL6648

The Company was pleased to announce on 8 February 2018 that its 100% owned gold prospect Crow Mountain, EL6648 in northern NSW, has been renewed for a further three years from the 2 February 2018. The Crow Mountain prospect covers an old gold field first worked from 1868. Work completed in the current term involved a comprehensive review of the geological, geochemical and geophysical data acquired in the licence over the last 10 years which indicates that the licence area contains three important potential gold mineralisation targets:

- Carlin style gold deposition in the Early Carboniferous west of the Peel Fault.
- Bulk mining grades of gold disseminated in quartz veins associated with late phyllic alteration of a belt of partly serpentinised ultramafics in a north-north-west-trending corridor east of the Peel Fault.
- Potential for intrusion-related or "porphyry" gold mineralisation in altered dolerite/quartz monzodiorite intrusions.

None of these targets have been tested in the license area. The latter two targets have potentially been defined in-part by the chargeability anomalies found in a 2008 IP survey, but not tested. The first target type is known only from drill core from the 2010 drilling by the Company's predecessor, Icon Resources Limited. and no surface sampling or geophysics has been carried out to follow up this important discovery.

The current term investigations found potential gossans in the form of limonitic jasper breccia that may reflect intrusion related mineralisation, showed that gold is likely leached from the surface and confirmed phyllic alteration associated with historic gold workings.

A more rigorous approach to exploration in the EL6648 based on these findings is planned with the intent of defining drill targets.

A detailed exploration program and budget will be finalised by the Board and its geological team for the Company's entire exploration portfolio once funding for the Mt Carbine Project has been finalised.

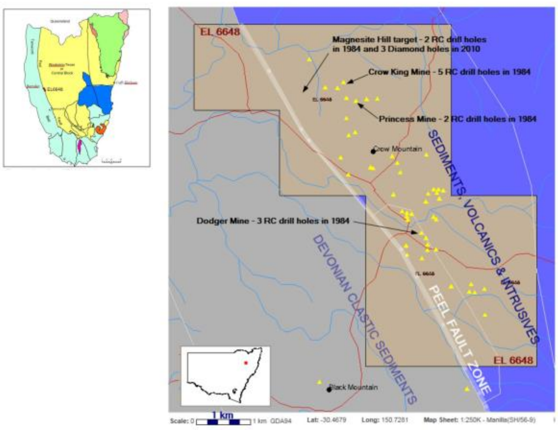


Figure 1. Location of EL6648

PANAMA HAT – EL8024

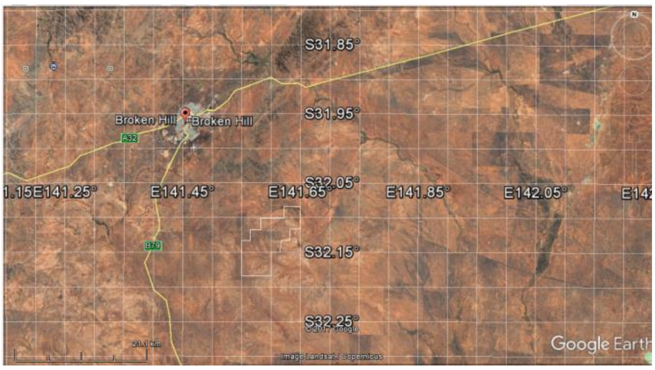


Figure 1. Historical Workings EL8024

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 to83g/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.

CORPORATE

BOARD & MANAGEMENT RESTRUCTURE

Speciality Metals' predecessor, Carbine Tungsten Limited, announced on 14 November 2017 the appointment of Mr Stephen Layton as Non-executive Director, as of the same date.

Mr Layton has over 35 years' experience in Equity Capital Markets in the UK and Australia. Starting as a Jobber (market marker) with BZW on the floor of the London Stock Exchange from 1980 to 1986, Mr Layton became a Member of the London Stock Exchange in 1985. Since migrating to Australia in 1986 Mr Layton has worked with various stockbroking firms and/or AFSL regulated Corporate Advisory firms.

REVIEW OF OPERATIONS

Having raised capital for many ASX listed companies, including the Company, Mr Layton has a depth of knowledge that only comes from a thorough immersion in the industry. Mr Layton specializes in capital raising services and opportunities, corporate advisory, facilitation of ASX listings and assisting companies grow. Mr Layton has held both Principal and Director roles in his advisory career and his Professional Associations include Master Stockbroking – MSAFAA. The Board welcomes Mr Layton as a Non-executive Director and his longstanding experience in capital raising and corporate advisory will be an asset to the Board. Mr Layton has been an active supporter of the Company and became a substantial holder on 12 October 2017 through his company Bodie Investments Pty Ltd.

The Board also advised that Mr Andrew James (Jim) Morgan resigned from his position as CEO and Managing Director and concluded his Consultancy Agreement with the Company effective from 14 November 2017. The Board wishes Mr Morgan well in his future endeavours.

Mr Russell Krause, the Company's current Chairman, also assumed the role of Executive Chairman whilst executive replacement options to complement the Company's diversification and growth opportunities are completed.

CHANGE OF COMPANY NAME & REGISTERED OFFICE ADDRESS

As approved at the 2017 Annual General Meeting, Carbine Tungsten Limited (ASX: CNQ) changed its name to Speciality Metals International Limited as from 11 December 2017 and as of that date commenced trading under its new ASX Code: SEI. The Board believes that the new Company name is more reflective of its newly diversified exploration portfolio.

The Company also changed its registered office address to the following as from Friday 15 December 2017 however its principal place of business and main operational activities remain at the Mt Carbine Mine site:

Level 17, 500 Collins Street, Melbourne VIC 3000
Phone: (03) 9614 0600 | Fax: (03) 9614 0550

MT CARBINE QUARRIES

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 SPA is subject to the Company obtaining adequate financing.

Speciality Metals' negotiations with several key international financiers is progressing well and in order to conclude the financing of the Mt Carbine Quarry and Mining Leases it has agreed to an extension with Mt Carbine Quarries Pty Ltd, subject to finance/settlement.

Whilst the financing of this transaction is taking longer than initially anticipated both parties are satisfied with the progress made to date and the Board of Speciality Metals is confident that the purchase will be concluded within the agreed timeframes.

Upon the successful completing of the SPA the Company intends to commence early production at Mt Carbine via the use of ore-sorting technology to high-grade the ore contained within the existing stockpile. It is also intended to dedicate a portion of the funds received from the Company's quarrying and mineral processing activities to undertake further exploration within its highly prospective Iron Duke tenement, where previous mapping and sampling activities have indicated an extensive strike length that may be equal to, or even greater than, the existing Mt Carbine open-pit tungsten deposit.

A detailed exploration program and budget will be finalised by the Board and its geological team for the Company's entire exploration portfolio once funding has been finalised.

SHARE PLACEMENT

On 6 February 2018, the Company completed a placement of 68 million shares at $0.025 per share to institutional and sophisticated investors to raise $1,700,000. An additional 4,000,0000 shares were issued to Mr Stephen Layton, a Director of the Company, to raise a further $100,000 following approval by shareholders at a General Meeting held on 22 June 2018.

Proceeds from the Placement were used to pay for the deposit in relation to the Sale and Purchase Agreement SPA with MCQ along with the development of the Company's lithium and gold exploration program for its Chilean and Australian exploration tenements.

TUNGSTEN MARKET OUTLOOK

The tungsten APT (Ammonia Para Tungstate) price has risen considerably over the 2017-2018 financial year from US$226 on 26 July 2017 to around US$340 in June 2018.

The general consensus within the market is that this price increase has been driven by China, the dominant supplier of the world's APT, undergoing a restriction of supply and increased production costs for tungsten concentrates and APT product due to increased environmental regulation being implemented throughout their mining and manufacturing sectors.

Although the current pricing for European APT is sitting between US$280 – US$290 at the time of writing this report analysts' are still forecasting that despite increasing supply, continued demand in 2018 is forecast to form a supply deficit as operations in China continue to experience suspensions.

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.

TENEMENT SCHEDULE

Details of mining tenements held by the Company and its child entities:-

State	Ownership	Area	Status	Notes	Expiry Date
Queensland, Australia					
ML 4867	Mt Carbine Quarries Pty Ltd 100%	358.5 ha	Granted	Subject to sub-lease agreement with Speciality Metals International Limited with pre-emptive right to purchase.	31/07/2022
ML 4919	Mt Carbine Quarries Pty Ltd 100%	7.891 ha	Granted	Subject to sub-lease agreement with Speciality Metals International Limited with pre-emptive right to purchase.	31/08/2023
EPM 14871	Speciality Metals International Limited 100%	16 sub-blocks	Granted	5 Year Renewal Granted	12/12/2020
EPM 14872	Speciality Metals International Limited 100%	21 sub-blocks	Granted	5 Year Renewal Granted	11/12/2020
New South Wales, Australia					
EL 6648	Speciality Metals International Limited 100%	9 Units	Granted	Acquired 9 September 2016	19/10/2020
EL 8024	Speciality Metals International Limited 100%	19 Units	Granted	Acquired 9 September 2016	29/11/2019
Chile					
Miraje 1-5	Special Metals Chile SpA 100% (wholly owned subsidiary of Speciality Metals International Limited)	45 km^2	Granted	Granted 10 May 2017	10/05/2019
Bellavista 1-5	Special Metals Chile SpA 100% (wholly owned subsidiary of Speciality Metals International Limited)	45 km^2	Granted	Granted 7 December 2017	07/12/2019
Pinta 1-15	Special Metals Chile SpA 100% (wholly owned subsidiary of Speciality Metals International Limited)	135 km^2	Granted	Granted 4 February 2018	04/02/2020

ML = Mining Lease EPM = Exploration Permit for Minerals EL = Exploration Licence

MINERAL RESOURCES AND ORE RESERVES STATEMENT

SUMMARY OF RESULTS OF ANNUAL REVIEW OF RESOURCES AND RESERVES

The resources and reserves at Mt Carbine comprise three components:

1. The resources and reserves in mineralised rock proposed to be mined by open pit mining, beneath and adjacent to the existing open pit.
2. The mineralised rock that was mined and stockpiled in what is now termed the Low Grade Stockpile ("LGS").
3. The tailings from the previous mining operation, principally the tailings in Tailings Storage Facility No 4.

There are also other significant mineralised stockpiles and mine dumps, particularly the Optical Ore Sorter Reject ("OOSR") stockpile from the previous mining operation, estimated to comprise several million tonnes. Except for the OOSR stockpile these have not been quantified nor sampled for grade.

1. Mineralised Hard Rock

The resources and reserves estimates for the mineralised hard rock in the Mt Carbine tungsten deposit were updated to comply with the 2012 JORC Code for reporting of reserves and resources in November 2012 (SEI - CNQ ASX announcements 20/11/2013; 24/11/2013 and 9/01/2014). No further sampling or work has been done since this update that impacts on the resource estimate and therefore the resources and reserves estimates for the Mt Carbine tungsten deposit are left unchanged.

2. Low Grade Stockpile

Speciality Metals announced an upgrade of the Low Grade Stockpile resources in September 2012. To comply with the 2012 JORC Code a more detailed reporting of the upgrade is provided in Appendix 1 to this report.

The Low Grade Stockpile is comprised of mineralised rock extracted during open pit mining operations between 1974 and 1987. Grade control practice during this open pit mining discriminated between ore sent for processing and mineralised rock deemed at the time to be too low grade to justify treatment. Independent research has since established that the grade control practice, based on an estimate of quartz vein percentage as a direct indicator of tungsten grade, was invalid.

In the historical records of this mining operation the material consigned to the stockpile is described as "mullock" or "low grade", but also includes 3.5Mt of "ore". Geological examination and drilling indicates that the previous mining at Mt Carbine was all in mineralised rock. No sampling or record of possible grade variation was kept of material sent to the stockpile.

Historical mine records indicate that there is approximately 12Mt of broken rock in the stockpile. This reconciles with the tonnes consigned to the LGS, derived from the independent estimate of total tonnes of rock mined in the previous open pit of 22Mt, less the 10Mt recorded as having been processed through the mill.

The LGS has been bulk sampled (22,000 tonnes), the sample assayed and subjected to extensive sorting trials with a pilot-scale X-ray sorter (SEI - CNQ - III ASX announcement 23 March 2011). The sorter trials indicated that the low grade material could be pre-concentrated by sorting with an optimum 6 times upgrade. The grade of the bulk sample was 0.075% WO_3. This compares very favourably with a back-calculation from historic mine records of production and mill recovery and based on the recent resource estimate which took account of the resource mined during the previous open pit operation, of a global average grade of 0.07% WO_3 for the Low Grade Stockpile. Further sampling of the LGS for environmental permitting purposes involved taking 80 grab samples from the surface of the stockpile. Each sample was approximately 20kg of minus ~100mm material. The average grade of these samples was 0.088% WO_3.

Following the X-ray sorter trials previously announced, and the costings determined in the Feasibility Study, Speciality Metals has sufficient confidence in the tonnage and global average grade of the stockpile to justify its inclusion in the resource inventory at Mt Carbine as an Indicated Resource.

Trials indicated that at optimum settings, the X-ray sorter produces a pre-concentrate product that is approximately 12% of the original feed and has a grade of approximately 0.65% WO_3 at 90% WO_3 recovery, and approximately 88% of the material fed to the sorter was rejected as waste. The loss of WO_3 to waste in this sorting process was only 10% of the total tungsten in the sorter feed.

- Speciality Metals does not intend to attempt a further definition of the possible grade and tonnage of mineralised rock in the Low Grade Stockpile, beyond the sampling, assaying and sorter trials already carried out, because of the physical impracticality of attempting to do so.
- Local grade distribution within the stockpile is expected to vary and has not been quantified.

The plant comprising the X-ray sorter and mill to treat the stockpile material will be the same plant to process ore from the open pit.

- The original capital cost estimates determined as part of the Feasibility Study were revised by two independent EPCM exercises completed in 2016, and since then the capital and operating cost estimates have continually been reviewed, the last revision being carried out in August 2018.
- The quarry currently operated on site by Mt Carbine Quarries Pty Ltd includes crushing, screening and rock moving equipment used on a campaign basis. If Speciality Metals acquires Mt Carbine Quarries, it plans to use the quarry's crushing, screening and rock moving equipment as part of the plant to process the mineralised material from the Low Grade Stockpile. This will result in an estimated capital expenditure saving of AU$6.5M and if this saving is achieved the capital cost for the remainder of the plant to treat the stockpile is estimated to be AU$8.5M.
- Otherwise, capital cost for treatment of Low Grade Stockpile only is estimated to be AU$15M, based on a detailed EPCM exercise carried out in 2016 and revised in August 2018.
- Operating Costs are estimated to be AU$8.50 per tonne, however possible recent price increases for electricity have not been factored into this estimate.

3. Tailings

Production from the tailings No 4 stockpile was carried out until 8 December 2013. Speciality Metals has previously stated that this stockpile contained approximately 2Mt at a global average grade of 0.1% WO_3, based on comprehensive but non-JORC compliant historical studies. The stockpile includes a basal layer 1-2m thick amounting to approximately 400,000 tonnes of slimes (<75micron particles) with a global average grade of 0.35% WO_3. Trials are continuing with the aim of achieving efficient recovery of tungsten from the slimes, but this component of the stockpile is essentially untouched and production was mostly from the >50 micron <1mm fraction of the overlying coarser tailings material.

MT CARBINE MINERAL RESOURCE SUMMARY – JULY 2014 (NO CHANGE FROM 2013) TUNGSTEN RESOURCES AS WO_3

Resource	Resource	Cut-off Grade (%)	Tonnes (Mt)	WO_3 (%)	WO_3 (mtu)
Low Grade Stockpile	Indicated	0.00	12.0	0.075	840,000
Main Zone Hard Rock	Indicated	0.05	18.0	0.140	2,520,000
Main Zone Hard Rock	Inferred	0.05	29.3	0.120	3,516,000
	Total		**59.3**		**6,876,000**

Exploration targets adjacent to Inferred and Indicated Mineral Resources in the Mt Carbine sheeted quartz vein tungsten deposit.

1. Sheeted quartz vein system:

Exploration drilling to date suggests that the Mt Carbine tungsten deposit may plunge to the north, and the deposit is open in this direction, to the south east and at depth. The deposit contains an Indicated Mineral Resource of 18Mt at 0.14% WO_3 (at a cut-off of 0.05% WO_3), and exploration of the depth extensions of the deposit will be carried out after production from this resource has commenced.

2. The Iron Duke prospect:

The Iron Duke prospect on the eastern side of the planned open pit has now been intersected in 6 drill holes, and has recently been mapped in detail on the surface and shown to extend more than 2km to the north of where it has been drilled. Surface width of the sub-vertical zone that hosts the Iron Duke mineralisation ranges from 10m to 20m over this strike length. Scheelite and minor wolframite mineralisation have been observed in rock chips along the entire length of surface exposure.

The Iron Duke mineralisation is dominated by scheelite (whereas the main Mt Carbine sheeted quartz vein tungsten deposit is dominated by wolframite) and the weighted average grade of the 6 drill intercepts in the Iron Duke is 0.32% WO_3 over an average true width of 8m. The 6 drill holes cover a strike length of 300m, and the shallowest intersection of the prospect is at a depth of 100m immediately adjacent to the planned open pit. Although the surface expression of the Iron Duke adjacent to the open pit is now covered by mine dumps, historical maps indicate that it was recognised as a scheelite prospect at the surface in 1917, and therefore there is a reasonable expectation that the prospect will extend from the surface to below its present maximum drilled depth of 195m. The Iron Duke mineralisation is not included in either the present Inferred or Indicated Mineral Resources although it will be uncovered and mined in the planned open pit.

Exploration of the Iron Duke to test grade, width and continuity has been deferred due to market conditions. The Exploration Target for the Iron Duke over a strike length of 400m immediately adjacent to the planned open pit is 3.5Mt to 6.5Mt with possible grades ranging from 0.13% WO_3 to 0.59% WO_3 (based on present drilling data), with the weighted average grade of drill hole intersections of 0.32% WO_3 possibly reflecting the average grade. This Exploration Target does not include the potential for further mineralisation along the recently established northern continuation of the prospect.

MINERAL RESOURCES AND ORE RESERVES STATEMENT

The Exploration Targets at Mt Carbine are summarised in Table 1 below:

Mineralisation system	Exploration target tonnes	Exploration target grades
Main sheeted quartz vein system – wolframite dominated	12Mt-16Mt	0.08% WO_3 to 0.16% WO_3
Iron Duke prospect – scheelite dominated	3.5Mt-6.5Mt	0.13% WO_3 to 0.59% WO_3

Hole No.	From (m)	To (m)	Interval (m)	%WO_3 (XRF analysis)
CB18	163	198	35	0.299%
CB51	130.25	146.5	8.73	0.57%
CB52	94.5	112.5	18	0.18%
CB53	160.5	172.5	12	0.49%
CB54	162.5	169.35	6.85	0.59%
CB66	113.3	127.62	14.32	0.13%

Table 2. Drill intersections in the Iron Duke prospect adjacent to the open pit at Mt Carbine.

GOVERNANCE AND INTERNAL CONTROLS

The Company has followed the practice of obtaining independent, geostatistically based estimates of resources, which themselves have been independently audited. These estimates have been qualified in-house where geometallurgical research, economic modelling involving mine and processing studies and/or reconciliations of historical mine data justify modification. The prime concern in this deposit is the extreme nugget character of the mineralisation and in this respect considerable confidence is placed on existing resource estimates that they are (a) conservative with respect to grade estimation, and (b) that the previous mine operation and a nearly complete set of records of this operation document what is in effect a 10Mt bulk sample of the ore body.

COMPETENT PERSON STATEMENT

(a) The above Mineral Resources and Ore Reserves Statement is based on, and fairly represents, information and supporting documentation prepared by competent persons; and

(b) The information in this document relating to Exploration Targets and Mineral Resources is based on information compiled by Dr Andrew White, who is a Fellow of the Australian Institute of Geoscientists and principal consultant for Andrew White & Associates. 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” (the JORC code). Dr White consents to the inclusion of matters based on his information in the form and context in which it appears in the Annual Report.

APPENDIX 1. TABLE 1, JORC CODE 2012

Section 1. Low Grade Stockpile Sampling Techniques and Data

Sampling techniques	1. Bulk sampling by means of 8 costeans dug with an excavator around the perimeter of the stockpile, costeans ranging up to 10m deep and 50m long. 2. Grab sampling at 80 locations (samples approximately 20kg each of minus 100mm material) for mineralogical and chemical characterisation of mineralised rock for environmental permitting purposes.
Drilling techniques	N/A
Drill sample recovery	N/A
Logging	N/A

Sub-sampling techniques and sample preparation	The bulk sample was coned and quartered with the excavator to 2,000 tonnes. This sub-sample was crushed to minus 50mm and screened into three size ranges: 20-50mm, 10-20mm and minus 10mm. Each size fraction was sampled by channel sampling. The grab samples were crushed to minus 3mm, split, and sub-samples pulverised and assayed for a range of elements including tungsten (the latter by fused disk XRF).
Quality of assay data and laboratory tests	The channel samples were analysed by fused disk and check analyses were carried out on site with a Niton portable XRF analyser after careful calibration of this instrument.
Verification of sampling and assaying	See above.
Location of data points	Costean locations are shown in Figure 1 and grab samples in Figure 2 below.
Data spacing and distribution	See Figures 1 and 2.
Orientation of data in relation to geological structure	N/A
Sample security	The bulk sample crushed and screened size splits are stored on site, and the crushed grab samples and pulverized splits are stored in the mine core shed.
Audits	The bulk sampling procedures were subject to review by an independent consultant retained to supervise the X-ray ore sorter trials.

Section 2. Reporting of Exploration Results

Mineral tenement and land tenure status	The resource estimates reported herein are all within Mining Leases 4867 (358.5ha, expiry 31-07-22) and 4919 (7.891ha, expiry 31-08-2023), held by Mt Carbine Quarries Pty Ltd. Speciality Metals, has a sub-lease agreement with Mt Carbine Quarries Pty Ltd that grants the right to extract metals including tungsten from the Mining Leases. The Mining Leases lie within Brooklyn Grazing Homestead Perpetual Lease. Native Title has been extinguished in the Mining Leases by Deed of Grant.
Exploration done by other parties.	No previous examination of the LGS was carried out. **Historical (1974-1987) mine records.** A nearly complete record of mine production, including amounts of mined rock consigned to the LGS has been compiled using published and unpublished archives, including reporting for State Royalty returns.
Geology	**The Deposit** The Mt Carbine tungsten deposit is a sheeted quartz vein deposit. A number of sub-parallel, sub-vertical quartz veins have been deposited in fractures developed in the host rocks (Siluro-Devonian metasediments) in a zone that drilling and mapping of historical surface workings has shown to be approximately 300m wide and at least 1.4km long, trending at about 315 degrees. **Grade Variation** Sampling, drill core logging, geostatistical analysis of drill core assay data and mapping of the open pit have determined that all the material mined during the previous operation was mineralised to some extent, and that the mineralogy of the deposit was uniform. There is little doubt that the mineralogy of the stockpile material is identical to that mined and processed. Material in the stockpile comprises a single formation, the result of alteration of Siluro-Devonian meta-sedimentary host rocks (Forsythe and Higgins, 1990). The amount of quartz veining varies within the mineralised zone and previous mining and exploration has been concentrated at the south eastern end of the mineralised zone. It is well understood that there are high grade zones within the mineralisation in this part of the deposit and that the higher grade zones are surrounded by lower grade mineralisation. Interpretation of recent drilling suggests that the main high grade zone may plunge to the north of the present open pit. The previous mine assumption that quartz vein abundance is directly correlated with grade is not supported by an independent review of quartz vein abundance and grade.
Drill hole information	N/A

Data aggregation methods	N/A
Relationship between mineralisation widths and intercept lengths	N/A
Diagrams	A plan view of sampling is shown below in Figures 1 and 2.
Balanced reporting	N/A
Other substantive exploration data	N/A
Further work	The bulk sample was subjected to a series of trials through a pilot scale X-ray ore sorter over a period of 2 months. This work demonstrated that an optimum 6 times upgrade of the tungsten content in the ore sorter accepts, and ensuing feasibility studies indicate that the LGS is economic to process by means of X-ray ore sorting and concentration of mineral in the ore sorter accepts in a conventional gravity mill.

Section 3. Estimation and Reporting of Mineral Resources

Database integrity	N/A
Site visits	The Competent Person has been closely involved in resource assessment at Mt Carbine between 1985 and 1988, 1992 and between 2009 and the present. The relevant Competent Person has conducted numerous site investigations including mapping, sampling, core logging, review of historical resources and reserve estimates, mining, metallurgical processing and recovery.
Geological interpretations	Senior geological staff including the Competent Person has developed a sound understanding of the geology and importantly, geometallurgy of the deposit.
Dimensions	The 12Mt tonnes estimated to be contained in the LGS has been derived from nearly complete historical mine records, confirmed by reconciliation of an independent estimate of total tonnes mined from the open pit (22Mt) less 10Mt material processed through the mill.
Estimation and modelling techniques	The detailed distribution of grade through the LGS is not known, as no record was kept of placement of rock consigned to the stockpile, nor was any sampling carried out. The average of assays of the three size range sub samples of the bulk sample is 0.075% WO_3. This reconciles very favourably with a back-calculation from historic mine records of production and mill recovery and based on the recent resource estimate which took account of the resource mined during the previous open pit operation, of a global average grade of 0.07% WO_3 for the Low Grade Stockpile. It should be noted that the historical mine records state that 3.5Mt of rock described as ore were apparently consigned to the stockpile in 1982. The grab samples average 0.088% WO_3 (fused disk XRF analysis), which is taken to indicate that the tungsten grade of the finer fraction (<200mm) of the stockpile is higher than the global average grade of the bulk sample that included fragments up to 500mm.
Moisture	Tonnages are estimated on an air dried basis.
Cut off parameters	No cut off has been applied to the stockpile grade estimation, however it is planned to screen the stockpiled material at 500mm and only crush and ore sort the minus 500mm fraction, since a growing body of data from on-going tests indicates that this fraction contains the bulk of the tungsten minerals that it is planned to recover.
Mining factors	The stockpile fills a valley and will readily be recovered by excavator and truck.

Metallurgical factors	There is no doubt that the mineralogy of the material contained in the stockpile is identical to that of the hard rock ore body. The Mt Carbine ore body is low grade in comparison with many other tungsten deposits, however the highly successful application of ore sorting to pre-concentrate this ore to a high grade mill feed has been demonstrated firstly in the previous mining operation which used optical ore sorters, and secondly by extensive recent trials of X-Ray ore sorting of bulk samples of stockpile and Run of Mine ore by Speciality Metals. Process design and anticipated recoveries have been derived from historical mill flow sheets, reports and trials that have been confirmed by repeat metallurgical testing of bulk samples of stockpile material including Run of Mine ore.
Environmental factors	Speciality Metals has been granted an Environmental Permit by the Queensland Department of Environment and Science ("DES") to process the Low Grade Stockpile. Based on sampling of existing stockpiles, tailings storage facilities and analytical characterisation of the mineralisation, the only elements present at hazardous values are fluorine (as fluorite) and arsenic (as arsenopyrite). Previous mine practice and the present Environmental Management Plan approved by the DES include measures to manage the environmental hazards these elements present. Sampling of the existing stockpiles and tailings storage facility indicate that acid mine drainage will not be a hazard created by future mining and waste storage.
Bulk density	N/A. The tonnes estimated to be contained in the stockpile have been derived independently of calculation by multiplying volume by density.
Classification	Following extensive metallurgical testing of bulk samples from the stockpile that provide robust anticipated recovery and quality of product, the LGS has been classified as an Indicated Resource.
Audits or reviews	The estimates for the LGS have been subject to internal Company review.

Section 4. Estimation and Reporting of Ore Reserves

Mineral Resource estimate for conversion to Ore Reserves	Due to the total lack of knowledge of detailed grade distribution within the stockpile, and the impracticability of detailed sampling within the body of the stockpile, it is doubtful if an ore reserve could be determined for the stockpile. However, the ore sorting trials indicate that the global average grade of the stockpile is sufficient to enable it to be economical to be processed via ore sorting, and it is anticipated that the construction of the stockpile over time led to a degree of homogenisation of the grade distribution within the stockpile.
Site visits	See Section 3.
Study status	The decision to process the stockpile was the outcome of the following independent studies: • A Feasibility Study, which is now in the process of being refined to a Final Feasibility Study standard. • Extended X-ray ore sorter trials. • Infrastructure (the mine is ideally situated with respect to infrastructure having sufficient grid power, sealed highway access, and adequate water supply). • Laboratory and pilot scale test work on appropriate bulk samples to determine parameters for flow sheet design for a gravity recovery circuit, using mainly samples from the Low Grade Stockpile (see below). • Flow sheet design for a gravity recovery circuit. • Detailed costings for operating and capital costs. • Discounted cash flow modelling of project economics. In addition, the following factors provide additional confidence when taking into account the factors outlined above: • The Company operated a treatment plant to recover mixed wolframite and scheelite concentrates from the main tailings dump associated with the previous mining operation. The Tailings Retreatment Plant made regular shipments of concentrate to Speciality Metals' major off-take partner. Operation of the tailings recovery plant provides confidence that the anticipated mill recovery can be achieved and has also provided an opportunity to recruit and train staff to operate the proposed mill.
Cut-off parameters	See Section 3.
Mining factors	See Study status.

Metallurgical factors	A geometallurgical approach to exploitation of the Mt Carbine tungsten deposit is considered critical to a successful outcome. Following extensive test work that has confirmed the validity of the previous milling process (but with improved recovery to be anticipated), the main components in the metallurgical process will essentially be as follows: 1. Crushing; 2. Ore sorting; 3. Jigging; 4. Spiralling; 5. Tabling; 6. Dry Magnetic Separation. The key parameter from the metallurgical test work and design is recovery of >75% of WO_3 in mill feed. There are no by-product minerals, although the waste will be sold as aggregate or road base (this has not been included in the feasibility assessment of the project). Tests and previous mine practice have shown that the main contaminant, arsenic in arsenopyrite, can be cost effectively removed by flotation and that the products will be very high grade (70% and 72% WO_3) wolframite and scheelite concentrates. Previous removal of arsenic (and other minor sulphides) by flotation of small concentrate volumes has had additional environmental benefits in that the existing stockpiles and tailings have been demonstrated to have no acid mine drainage potential.
Environmental	See Section 3.
Infrastructure	The Mt Carbine mine is situated adjacent to the Mulligan Highway, has grid power to site and sufficient water on site for if the proposed mining operation proceeds.
Costs	The quarry operated on site by Mt Carbine Quarries Pty Ltd includes crushing, screening and rock moving equipment used on a campaign basis. If Speciality Metals acquires Mt Carbine Quarries, it plans to use the crushing, screening and rock moving equipment in the quarry as part of the plant to process the mineralised material from the Low Grade Stockpile. This will result in an estimated capital expenditure saving of $6.5M and if this saving is achieved the capital cost for the remainder of the plant to treat the stockpile is estimated to be AU$8.5M. Otherwise, the capital cost for treatment of Low Grade Stockpile only is estimated to be AU$15M, based on a detailed EPCM exercise carried out in 2016 and revised in August 2018. Operating costs are estimated to be AU$8.50 per tonne, however recent price increases for electricity have not been factored into this estimate.
Revenue factors	The present price for European Ammonium Paratungstate (APT), which is the benchmark for pricing of the tungsten concentrates that will be the mine product, is in the range of US$270 – US$290 per Metric Tonne Unit (MTU). All mine studies have been based on a price of US$290 per MTU and A$ parity, however as at 21 September 2018 the A$ was at US$0.72737.
Market assessment	Discussions with off-takers is ongoing.
Economic	Using the estimates summarised in Costs (above) the treatment of Low Grade Stockpile project has an NPV at 8% discount rate of AU$36M.
Social	The Company has a policy of employing local staff by preference and is already well regarded as a significant employer in the district, based on its past operations
Other	See Mineral Tenement and Land Tenure Status Section 2.
Discussion of relative accuracy/confidence	The likelihood of success for the proposed stockpile treatment is underpinned by the fact that the same ore body was profitably mined for 13 years by the previous operators. The mine only closed in 1987 because of the price collapse caused by oversupply from Chinese producers dumping product on the market, resulting in the closure of most western tungsten producing mines. Prior to the price collapse, the Mt Carbine mine operators and their joint venture partners had carried out detailed plans to extend the mine life and maintain production for a further ten years. The Mt Carbine mine had not run out of ore (there was an estimated 3.5Mt of ore to be extracted from the existing pit before any mine expansion had to be considered). The ore treatment process was well documented, and studies spurred by the collapsing price showed that mill recovery could be significantly increased. This has since been confirmed by test work carried out by Speciality Metals.

Figure 1. Locations of costeans excavated for bulk sample of stockpile for X-ray ore sorter trials and determination of global average grade.

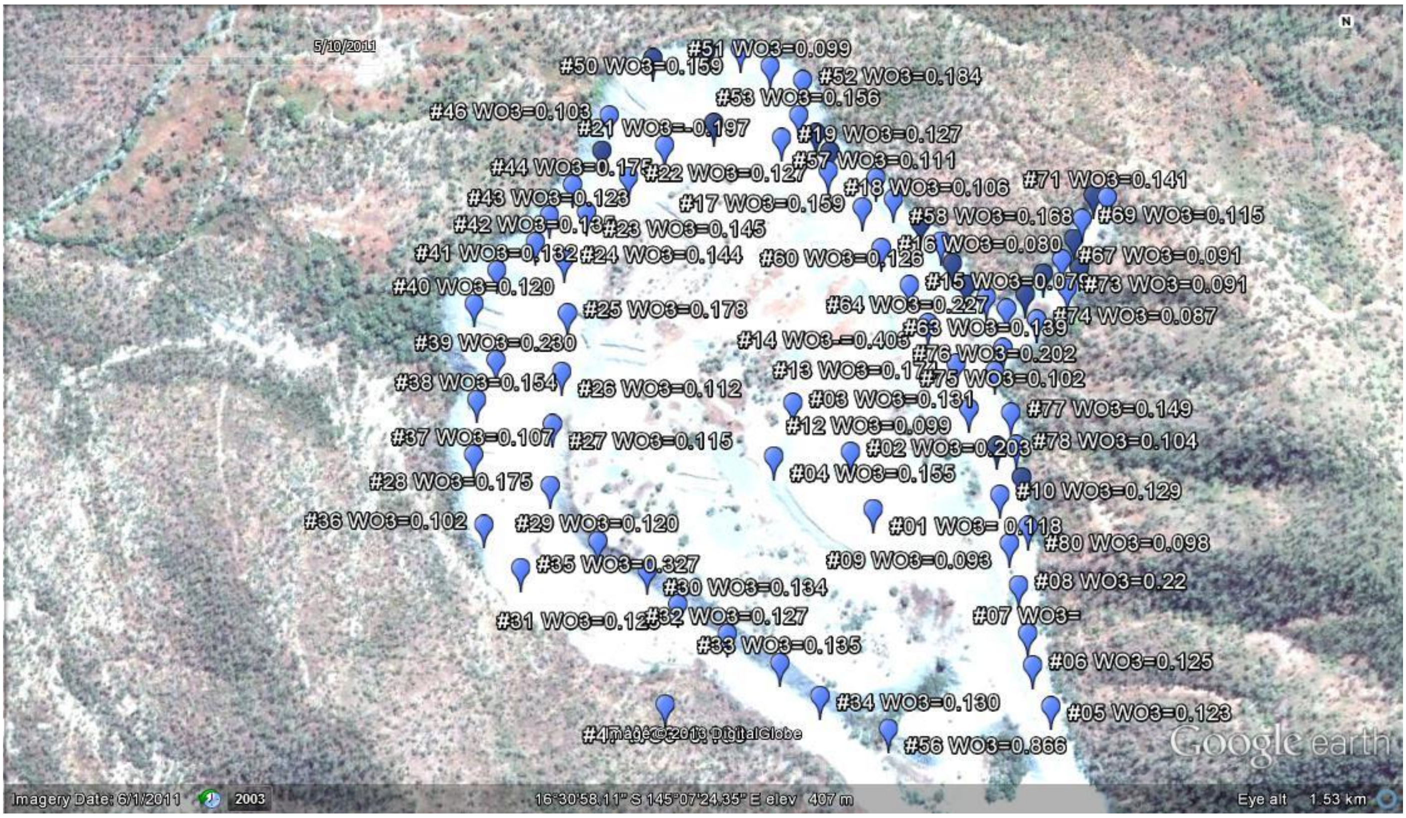


Figure 2. Aerial view of Low Grade Stockpile showing locations of grab samples taken for characterisation of mineralogy and chemistry of stockpile for environmental permitting purposes. Each grab sample was approximately 20kg.

DIRECTORS' REPORT

The Directors of Speciality Metals International Limited present their report on the consolidated entity (Group), consisting of Speciality Metals International Limited and the entities it controlled at the end of, and during, the financial year ended 30 June 2018.

DIRECTORS

The following persons were Directors of Speciality Metals International Limited during the whole of the financial year and up to the date of this report, unless otherwise stated:

Russell H. Krause, Executive Chairman

Stephen Layton, Non-executive Director (appointed 14 November 2017)

Roland W. Nice, Non-executive Director

Andrew J. Morgan, CEO & Managing Director (resigned 14 November 2017)

COMPANY SECRETARY

David Clark

PRINCIPAL ACTIVITIES

The principal activities of the Group have been to maintain its tungsten assets in Far North Queensland whilst becoming a diversified exploration Company through the acquisition of gold exploration licences within New South Wales, Australia and exploration concessions within Chile that may contain lithium and other valuable minerals. The Company has also recently entered into a Sale and Purchase Agreement for the purchase of the Mt Carbine Quarry, as a going-concern including all plant and equipment, and Mining Leases ML 4867 and ML 4919. Upon the successful completion of this transaction the Company intends to commence early production via the use of ore-sorting technology to high-grade the ore contained within the existing stockpile.

The Company also continues to evaluate other exploration and mining technology opportunities both within and outside its existing exploration permits.

The "Review of Operations" section covers this in further detail.

RESUTS

The net result of operations for the consolidated entity after applicable income tax expense was a loss of $1,478,746 (2017: $9,888,710).

DIVIDENDS

No dividends were paid or proposed during the period.

REVIEW OF OPERATIONS

Information on the operations and financial position of the Group and its business strategies and prospects for future financial years is set out earlier in this Annual Report. The auditors have issued an unqualified opinion with an emphasis of matter in their auditor's report in regard to a material uncertainty regarding going concern. This matter is disclosed in Note 1 in the financial report.

CORPORATE STRUCTURE

Speciality Metals International Limited is a limited company that is incorporated and domiciled in Australia.

EMPLOYEES

The Company had 1 full-time employee as at 30 June 2018. The Company also uses contract geologists and other specialist consultants as required.

DIRECTORS' REPORT

SIGNIFICANT CHANGES

Significant changes in the state of affairs of the Group for the financial year were as follows:

(a) Increase in contributed equity of $1,800,000 resulting from:

	Date	Shares	$
Placement of 68 million shares at $0.025 per share to institutional and sophisticated investors.	06-02-2018	68,000,000	1,700,000
Placement of 4,000,0000 shares to Mr Stephen Layton, a Director of the Company at $0.025 per share following approval by shareholders at a General Meeting held on 22 June 2018.	22-06-2018	4,000,000	100,000
Lanstead Capital LP - Tranche B - subject to an 18-month sharing agreement – the remaining 5 of 18 instalments settled[1]	30-06-2018	**	73,734
Share issue costs			(117,508)
TOTAL			**1,756,226**

[1] Number of shares issued subject to sharing agreement with Lanstead Capital LP – shares were issued in the prior reporting period.

(b) On 11 December 2017, following approval at the 2017 Annual General Meeting held on 29 November 2017, Carbine Tungsten Limited changed its name to Speciality Metals International Limited and on 14 December 2017 commenced trading under its new ASX Code: SEI.

(c) During or since the end of the financial year, no options were exercised.

(d) 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 SPA is subject to the Company obtaining adequate financing.

The Directors are not aware of any other significant changes in the state of affairs of the Company occurring during the financial period, other than as disclosed in this report.

MATTERS SUBSEQUENT TO THE END OF THE FINANCIAL YEAR

At the date of this Directors' Report, the Directors are not aware of any matter or circumstance that has arisen 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 the financial year subsequent to 30 June 2018 other than:

- An agreed extension to the Sale & Purchase Agreement with Mt Carbine Quarries Pty Ltd in order to conclude the financing for the Mt Carbine Quarry and Mining Leases ML 4867 and ML 4919 as announced on 31 August 2018.

LIKELY DEVELOPMENTS

The Company will endeavour to conclude the financing of the Mt Carbine Quarry and Mining Leases ML 4867 and ML 4919 which will enable it to commence early production, via the use of ore-sorting technology to high-grade the ore contained within the existing stockpile. The Company also plans on carrying out targeted drilling programs within its newly acquired exploration prospects within the coming financial year along with continuing its exploration activities associated with the identification of additional tungsten deposits and other precious and speciality metals both within and outside of its existing exploration permits.

ENVIRONMENTAL REGULATION & PERFORMANCE

Speciality Metals and its related entities endeavour to remain compliant with all aspects of the environmental regulations governing their exploration and mining activities. The Directors are not aware of any significant environmental laws or EA licence conditions that are not being complied with.

DIRECTORS' REPORT

INFORMATION ON DIRECTORS

Russell H. Krause | Executive Chairman

Mr Krause was appointed Non-Executive Chairman of the Company on 30 June 2013 and Executive Chairman on 14 November 2017. Mr Krause has over 25 years' Executive Management and Director level experience in a range of corporate advisory, stockbroking, and investment banking roles with some of Australia's leading financial services firms. Mr Krause also has extensive experience in the resources sector providing equity capital markets, capital raising and corporate advisory services to a range of ASX listed mining and energy companies. Mr Krause is currently a Non-Executive Director and Chairman of Austex Oil Limited (ASX:AOK) and Non-Executive Director of ELK Petroleum Limited (ASX:ELK) and a Director of Novus Capital Limited.

Stephen Layton | Non-executive Director

Mr Layton was appointed Non-executive Director on 14 November 2017 and has over 35 years' experience in Equity Capital Markets in the UK and Australia. Starting as a Jobber (market marker) with BZW on the floor of the London Stock Exchange from 1980 to 1986, Mr Layton became a Member of the London Stock Exchange in 1985. Since migrating to Australia in 1986 Mr Layton has worked with various stockbroking firms and/or AFSL regulated Corporate Advisory firms. Having raised capital for many ASX listed companies, Mr Layton has a depth of knowledge that only comes from a thorough immersion in the industry. Mr Layton specializes in capital raising services and opportunities, corporate advisory, facilitation of ASX listings and assisting companies grow. Mr Layton has held both Principal and Director roles in his advisory career and his Professional Associations include Master Stockbroking – MSAFAA.

Roland W. Nice (B.Sc (Metallurgical Engineering) | Non-executive Director

Mr Nice was appointed a Non-Executive Director of the Company on 30 June 2013. Mr Nice is a Metallurgical Engineer with over 45 years' experience. Mr Nice has a strong track record in mineral processing and metallurgy, most recently as a consulting Metallurgical Engineer in the role of Senior Associate for Behre Dolbear Australia, where he was involved in due diligence activities and consulting on some of the world's largest poly-metallic, gold and uranium projects including Newcrest's Cadia, Ridgeway and Telfer gold projects, Barrick's Cowal gold project, LionOres's Thunderbox gold project and numerous other non-ferrous metal mining projects. Mr Nice's work as a consultant has included specific experience in tungsten processing. Prior to this, Mr Nice was the Principal at a technical consulting firm, R.W. Nice and Associates, which followed approximately 20 years in a range of roles with Pancontinental Mining Limited, including General Manager Technology and Metallurgy. While with Pancontinental, Mr Nice was intimately involved in the test work and feasibility studies that led to the development of the Paddington and Kundana gold mines (3.0 Mtpa), the Jabiluka uranium project, the Thalanga Cu-Pb-Zn mine, the QMAG magnesia operation and the Wodgina tantalum operation. He is a Chartered Professional Engineer of the Institution of Engineers, Australia, a Life Member the Canadian Institute for Mining, Metallurgy and Petroleum, a member of the American Society of Mining and Metallurgical Engineers, a member of the Australian Institute of Minerals Valuers and Appraisers and a Fellow of the Australian Institute of Mining and Metallurgy.

Andrew J. Morgan | **CEO and Managing Director** (resigned 14 November 2017)

Mr Morgan was appointed in April 2012 and resigned on 14 November 2017. Mr Morgan has over 30 years' experience in the Australian and international mining and construction industries, most recently as General Manager – Project Development for ASX-listed Paladin Energy Ltd at Paladin's Langer Heinrich Uranium Project in Namibia. Mr Morgan worked on the initial Langer Heinrich Stage 1 development and the subsequent Stage 3 expansion project. He also managed Paladin's Kayelekera Project EPCM functions and was involved with government approvals and community interface aspects of the Kayelekera uranium mine in Malawi. Before joining Paladin, Mr Morgan held senior positions and played key roles in the mine development of Lafayette Mining Limited (Owner's Representative), Rapu Rapu mine in the Philippines and Ticor (Owner's Representative) at the Richards Bay mineral sands mining and titanium smelter project in South Africa. He acted as Owner's Site Manager for Newcrest Mining Ltd at the Cadia Gold-Copper mine at Orange, NSW and as Owner's Engineering Manager at Newcrest's Gosowong Gold mine in Indonesia. Mr Morgan holds tertiary qualifications in Electrical Engineering.

DIRECTORS' INTERESTS IN SHARES, OPTIONS AND PERFORMANCE RIGHTS

Directors' interests in shares, options and performance rights as at 30 June 2018 are set out in the table below. Between the end of the financial year and the date of this report, no additional shares, options or performance rights were acquired or disposed.

Director	Shares Directly and Indirectly Held	Options Directly and Indirectly Held	Performance Rights Directly and Indirectly Held
R.H. Krause	1,000,000	-	15,000,000
S. Layton	29,000,000	-	5,000,000
R.W. Nice	1,375,000	-	5,000,000

DIRECTORS' REPORT

COMPANY SECRETARY

David Clark

Mr Clark's appointment as Company Secretary on 10 July 2014 complements his existing responsibilities as Chief Financial Officer. Mr Clark is an experienced Chartered Secretary, a member of the Governance Institute of Australia and holds a Masters of Business of Administration (Executive) from the Australian Graduate School of Management (AGSM). Mr Clark has worked as Company Secretary of a privately funded group of biotechnology companies and is on the audit, risk and finance committee of an international global health organisation providing independent assurance and assistance to the organisation on audit, risk management, control and corporate governance.

MEETINGS OF DIRECTORS

Directors' attendance at Directors Meetings is shown in the following table:

Director	Meetings Eligible to Attend	Meetings Attended
R.H. Krause	12	12
S. Layton	7	7
R.W. Nice	12	12
A.J. Morgan	5	5

Non-executive Director, Roland Nice and Executive Chairman, Russell Krause are members of the Company's Audit and Risk Management Committee. The Committee reviews the Company's corporate risks, financial systems, accounting policies, half-year and annual financial statements. There were two (2) Audit and Risk Management Committee Meetings during the year. Russell Krause and Roland Nice are members of the Remuneration and Nomination Committee which held one (1) meeting during the year.

AUDIT AND RISK MANAGEMENT COMMITTEE MEETINGS

Director	Meetings Eligible to Attend	Meetings Attended
R.W. Nice	2	2
R.H. Krause	2	2

SHARE OPTIONS AND PERFORMANCE RIGHTS

During or since the end of the financial year, no options were granted by the Company to the Directors and Executives of the Group as part of their remuneration. Refer to Remuneration Report – section (g) for further details.

There are no unissued ordinary shares of Speciality Metals under option at the date of this report. Refer to Note 11(b) for further details.

During or since the end of the financial year no unlisted options were exercised.

25,000,000 performance rights were granted by Speciality Metals International Limited to the Directors during the financial year as part of their remuneration following approval by shareholders at a General Meeting held on 22 June 2018. See the Remuneration Report for further information.

REMUNERATION REPORT - AUDITED

This report for the year ended 30 June 2018 outlines the remuneration arrangements for the Group in accordance with the requirements of the Corporations Act 2001 (the Act) and its regulations. This information has been audited in accordance with section 308(3C) of the Act.

The Remuneration Report details the remuneration arrangements of key management personnel (KMP) who are defined as those persons having the authority and responsibility for planning, directing and controlling the major activities of the Group, directly or indirectly, including any Director (whether executive or otherwise) of the Parent company.

For the purposes of this report, the term 'Executive' includes the executive directors, senior executives and general managers of the Group, whilst the term 'NED' refers to Non-Executive Directors only.

The Remuneration Report is set out under the following main headings:

(a) Policy Used to Determine the Nature and Amount of Remuneration;

(b) Key Management Personnel;

(c) Details of Remuneration;

(d) Cash Bonuses;

(e) Equity Instruments;

(f) Options and Rights Granted as Remuneration;

(g) Equity Instruments Issued on Exercise of Remuneration Options;

(h) Service Agreements; and

(i) Speciality Metals' Financial Performance.

(a) Policy Used to Determine the Nature and Amount of Remuneration

The objective of the Company's remuneration framework is to ensure reward for performance is competitive and appropriate for the results delivered. The framework aligns executive reward with achievement of strategic objectives and the creation of value for shareholders. The Board believes that executive remuneration satisfies the following key criteria:

- Competitiveness and reasonableness;
- Acceptability to shareholders;
- Performance linkage / alignment of executive compensation;
- Transparency; and
- Capital management.

These criteria result in a framework which can be used to provide a mix of fixed and variable remuneration and a blend of short and long-term incentives in line with the Company's limited financial resources.

Fees and payments to the Company's Non-executive Directors and Senior Executives reflect the demands which are made on, and the responsibilities of, the Directors and the Senior Management. Such fees and payments are reviewed annually by the Board. The Company's Executive and Non-executive Directors, Senior Executives and Officers are entitled to receive performance rights, options and/or shares under the Company's Equity Incentive Plan which was approved by shareholders at a General Meeting on 22 June 2018.

Fees for Non-executive Directors are not linked to the performance of the Group.

Use of Remuneration Consultants

The Group has not used any remuneration consultants during the year.

Voting and Comments made at the Group's 2017 Annual General Meeting

The Group received votes against its Remuneration Report for the 2017 financial year however did not receive any specific feedback on its remuneration practices at the 2017 Annual General Meeting or during the year.

(b) Key Management Personnel

The following persons were Key Management Personnel of the Speciality Metals International Limited Group during the financial year:

	Position	Appointment	Resignation
Directors			
R.H. Krause	Non-Executive Chairman Executive Chairman	30 June 2013 14 November 2017	-
S. Layton	Non-Executive Director	14 November 2017	
R.W. Nice	Non-Executive Director	30 June 2013	-
A.J. Morgan	Managing Director and Chief Executive Officer	2 April 2012	14 November 2017
Executives			
D.W. Clark	Chief Financial Officer and Company Secretary	17 April 2014 10 July 2014	-

(c) Details of Remuneration

Directors are entitled to remuneration out of the funds of the Company, but the remuneration of the Non-executive Directors may not exceed in any year the amount fixed by the Company in general meeting for that purpose. The aggregate remuneration of the Non-executive Directors has been fixed at a maximum of $200,000 per annum to be apportioned among the Non-executive Directors in such a manner as they determine. Directors are also entitled to be paid reasonable travelling, accommodation and other expenses incurred in consequence of their attendance at Board Meetings and otherwise in the execution of their duties as Directors.

Details of the nature and amount of each element of the remuneration of each of the Directors of Speciality Metals International Limited and the Key Management Personnel of the Company and the consolidated entity during the year ended 30 June 2018 are set out in the following tables:

DIRECTORS' REPORT

2018	Short-term employee benefits – cash salary and fees $	Post-employment Super-annuation $	Long – term employee benefits $	Share-based payments		Total $	% Performance Based
				Shares $	Performance Rights and Options $		
Directors							
R.H. Krause	97,500	-	-	-	2,263	99,763	2.3%
S. Layton	30,000	-	-	-	754	30,754	2.5%
R.W. Nice	48,000	-	-	-	754	48,754	1.5%
A.J. Morgan[1]	88,667	-	-	-	-	88,667	0.0%
Executives							
D.W. Clark	64,425	-	-	-	-	64,425	0.0%
Total key management personnel compensation	**328,592**	**-**	**-**		**3,771**	**332,363**	

2017	Short-term employee benefits – cash salary and fees $	Post-employment Super-annuation $	Long – term employee benefits $	Share-based payments		Total $	% Performance Based
				Shares $	Performance Rights and Options $		
Directors							
R.H. Krause	60,000	-	-	-	-	60,000	0%
R.W. Nice	40,000	-	-	-	-	40,000	0%
A.J. Morgan[1]	240,000	-	-	-	-	240,000	0%
Executives							
D.W. Clark	47,475	-	-	-	-	47,475	0%
Total key management personnel compensation	**387,475**	**-**	**-**	**-**	**-**	**387,475**	

[1] A.J. Morgan resigned as CEO and Managing Director on 14 November 2017

Options and shares do not represent cash payments to Directors or Senior Executives and performance rights/share options granted may or may not be exercised by the Directors or Executives.

Following approval by shareholders at the General Meeting held on 22 June 2018, the Company granted 25,000,000 Performance Rights to Mr Russell Krause, Mr Stephen Layton and Mr Roland Nice in accordance with the terms approved by shareholders. See (e) (ii) below for further information.

(d) Cash Bonuses

No cash bonuses were paid to Directors or Key Management Personnel during the 2017-2018 financial year.

(e) Equity Instruments

The Company rewards Directors and Executives for their performance and aligns their remuneration with the creation of shareholder wealth by issuing shares, options or performance rights. Share-based compensation is at the discretion of the Board and no individual has a contractual right to participate in any share-based plan or receive any guaranteed benefits.

(i) Shareholdings

The trading of shares issued pursuant to the Company's Equity Incentive Plan are subject to the Company's Securities Trading Policy; further, Directors, Key Management Personnel and employees are encouraged not to trade shares granted in order to align Director, Key Management Personnel and employee interests with those of all shareholders.

Details of equity instruments (other than options and rights) held directly, indirectly or beneficially by Directors and Key Management Personnel and their related parties are as follows:

There were no shares granted to Key Management Personnel as remuneration in the 2018 Financial Year.

[1] Deemed disposal upon resignation from the Board or Company.

30 June 2018	Balance at 1 July 2017	Granted as compensation	Received on exercise of Performance Rights	Other changes	Balance at 30 June 2018	Balance held nominally
Name						
R.H. Krause	1,000,000	-	-	-	1,000,000	-
S. Layton	-	-	-	29,000,000	29,000,000	-
R.W. Nice	1,375,000	-	-	-	1,375,000	-
A.J. Morgan[1]	6,066,301	-	-	(6,066,301)	-	-
D.W. Clark	499,999	-	-	750,001	1,250,000	-
	8,941,300	**-**	**-**	**23,683,700**	**32,625,000**	**-**

(ii) Options and Performance Rights Holdings

Details of options and performance rights held directly, indirectly or beneficially by Directors and Key Management Personnel and their related parties are as follows:

30 June 2018	Balance at 1 July 2017	Granted as compensation	Rights exercised	Other changes	Balance at 30 June 2018	Total vested at 30 June 2018	Total vested and exercisable at 30 June 2018	Total unvested and unexercisable at 30 June 2018
Name								
R.H. Krause	2,000,000	15,000,000	-	(2,000,000)	15,000,000	-	-	15,000,000
S. Layton	-	5,000,000	-	-	5,000,000	-	-	5,000,000
R.W. Nice	2,000,000	5,000,000	-	(2,000,000)	5,000,000	-	-	5,000,000
A.J. Morgan[1]	2,000,000	-	-	(2,000,000)	-	-	-	-
	6,000,000	25,000,000	-	(6,000,000)	25,000,000	-	-	25,000,000

[1] Deemed disposal upon resignation from the Board or Company.

Following approval by shareholders at the General Meeting held on 22 June 2018, the Company granted Performance Rights to Mr Russell Krause, Mr Stephen Layton and Mr Roland Nice in accordance with the terms approved by shareholders.

The key terms of the performance rights are as follows:

Type of Performance Right: Each Right entitles the holder to 1 fully paid ordinary share in Speciality Metals International Limited 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.

(iii) Loans to Key Management Personnel

No loans have been made to Directors of the Company or the Key Management Personnel of the consolidated Group, including their personally-related entities.

(iv) Other Transactions and Balances

Consulting Services

Payments made for Key Management Personnel noted in (c) Details of Remuneration above are to Penause Pty Ltd, Projectex Pty Ltd, Bodie Investments Pty Ltd and R.W. Nice & Associates Pty Ltd as payments for consulting services.

(f) Options and Performance Rights Granted as Remuneration

No options were granted by Speciality Metals International Limited to the Directors and Executives of the Group during the financial year as part of their remuneration.

Valuation of Options Granted to Key Management Personnel as Remuneration in the 2015 Financial Year and expensed in the 2018 Financial Year

30 June 2018	Number of granted options	Grant date	Expiry date	Fair Value per option at grant date	Total Fair Value of Options	Share-Based Payments Expensed in prior years	Share-Based Payments Expensed in the 2018 year	Share-Based Payments AASB 2 Not yet expensed
Name								
R.H. Krause	2,000,000	12 Nov 2014	12 Nov 2017	$0.02	40,000	35,116	4,921	-
R.W. Nice	2,000,000	12 Nov 2014	12 Nov 2017	$0.02	40,000	35,116	4,921	-
A.E. Gordon[1]	2,000,000	12 Nov 2014	12 Nov 2017	$0.02	40,000	35,116	4,921	-
A.J. Morgan[2]	2,000,000	12 Nov 2014	12 Nov 2017	$0.02	40,000	35,116	4,921	-
	8,000,000			**$0.02**	**160,000**	**140,464**	**19,684**	**-**

[1] Resigned 10 November 2014

[2] Resigned 14 November 2017

Valuation of Performance Rights Granted to Key Management Personnel as Remuneration in the 2018 Financial Year and expensed in the 2018 Financial Year

30 June 2018	Number of granted Performance rights	Grant date	Expiry date	Fair Value per Performance right at grant date	Total Fair Value of Performance Rights	Share-Based Payments Expensed in prior years	Share-Based Payments Expensed in the 2018 year	Share-Based Payments AASB 2 Not yet expensed
Name								
R.H. Krause	15,000,000	22 Jun 2018	22 Jun 2020	$0.0132	198,000	-	2,263	195,737
S. Layton	5,000,000	22 Jun 2018	22 Jun 2020	$0.0132	66,000	-	754	65,246
R.W. Nice	5,000,000	22 Jun 2018	22 Jun 2020	$0.0132	66,000	-	754	65,246
	25,000,000				**330,000**	**-**	**3,771**	**326,229**

(g) Equity Instruments Issued on Exercise of Remuneration Options

No equity instruments were issued during the 2018 financial year to Directors or other Key Management Personnel as a result of options exercised that had previously been granted as remuneration.

(h) Service Agreements

Remuneration and other terms of employment for the Directors and Executives are formalised in Service/Appointment Agreements. All contracts with Executives may be terminated early by either party within the stipulated notice period, subject to any termination payments as detailed below.

R.H. Krause

There is no written agreement with Mr Krause in his role as Executive Chairman of the Company. Cash payments and benefits totalling $97,500 were paid to Mr Krause during the 2018 financial year. The payments were made through Penause Pty Ltd, a company in which Mr Krause has a substantial interest.

S. Layton

There is a written agreement with Mr Layton dated 9 November 2017 in his role as a Non-executive Director of the Company. Cash payments and benefits totalling $30,000 were paid to Mr Layton during the 2018 financial year. The payments were made through Bodie Investments Pty Ltd, a company in which Mr Layton has a substantial interest.

R.W. Nice

There is no written agreement with Mr Nice and cash payments and benefits totalling $16,000 were paid to Mr Nice in his role as Non-executive Director during the 2018 financial year. Accrued Director's fees of $8,000 was recognised as an expense in the financial statements for the 12 months to 30 June 2018 as Directors fees owing and as yet unpaid to Mr Nice at 30 June 2018.

A.J. Morgan

There is an agreement dated 22 June 2012 between Speciality Metals International Limited and Projectex Pty Ltd (a company associated with A.J. Morgan) whereby Projectex Pty Ltd provides management services to Speciality Metals International Limited in the role of Managing Director and Chief Executive Officer on a remuneration package of $240,000 per annum. A three-month notice period is required to terminate the agreement. Annual performance reviews are to be completed around May/June each year. Projectex Pty Ltd received cash payments and benefits totalling $88,667 during the 2018 financial year. Mr Morgan resigned as Managing Director and Chief Executive Officer on 14 November 2017.

D.W. Clark

There is an agreement dated 8 January 2014 between Speciality Metals International Limited and D.W. Clark whereby Mr Clark agrees to provide management services to Speciality Metals International Limited in the role of External Accountant on an agreed upon fee structure. On 11 July 2014, Mr Clark was appointed Company Secretary. Mr Clark's contract will continue until the agreement is validly terminated. The Company or Mr Clark may terminate the contract by giving one month's written notice.

(i) Speciality Metals' Financial Performance

Speciality Metals' financial performance for the five years to 30 June 2018 is noted below and the relationship between results and performance is discussed.

Year ended	Measure	2018	2017	2016	2015	2014
Net loss after tax	$	(1,478,746)	(9,888,710)	(2,101,010)	(2,415,229)	(2,001,531)
Net Assets	$	2,672,436	2,371,501	10,744,570	11,189,606	12,237,120
Cash and cash equivalents	$	602,675	1,048,000	761,413	1,817,147	2,124,913
Cash flows from operating activities	$	(1,368,767)	(916,448)	(1,023,157)	(633,185)	(1,146,400)
EBITDAX	$	(1,022,747)	(865,010)	(943,493)	(1,232,524)	(517,359)
Share price at 30 June	$	$0.019	$0.010	$0.030	$0.125	$0.100
Basic Earnings/(loss) per share	Cents	(0.29)	(2.27)	(0.56)	(0.79)	(0.69)

Financial Performance

The loss of the consolidated Group for the financial year after tax amounted to $1,478,746 (2017: $9,888,710).

The Group is creating value for shareholders by pursuing its diversification strategies through the development and exploration of its newly acquired gold and lithium prospects along with maintaining its tungsten assets in Far North Queensland. The Company has also recently entered into a Sale and Purchase Agreement ("SPA") for the purchase of the Mt Carbine Quarry, as a going-concern including all plant and equipment, and Mining Leases ML 4867 and ML 4919. Upon the successful completion of this transaction the Company intends to commence early production via the use of ore-sorting technology to high-grade the ore contained within the existing stockpile.

Financial Position

The Group's main activity during the year involved the investment of cash in the Group's Mt Carbine Tungsten Project along with the securing of a number of lithium exploration concessions within Chile to completement its existing tungsten and gold exploration licences within Australia. In accordance with the Company's accounting policy, the recoverability of the carrying amount of Deferred Exploration and Evaluation Expenditure was reassessed during the 2018 financial year without impairment. Separately to this exploration costs in the sum of $454,898 were expensed for the 2018 financial year. The carrying value of the exploration assets at 30 June 2018 is $596,066 (2017: $596,066).

At 30 June 2018, the Group had a net working capital surplus of $1,294,671 (2017: $1,023,557 surplus). The increase in the net working capital surplus was due largely to the payment of $800,000 as the deposit for the purchase of Mt Carbine Quarries Pty Ltd during the financial year. Of this deposit, $670,000 is refundable should the purchase not proceed. See Note 4 for further information.

The Directors reassess the carrying value of the Group's assets including deferred exploration expenditure, tenements and plant and equipment at each half year, or at a period other than that, should there be any indication of impairment to fair value. During the 2017 financial year an impairment expense of $7,790,092 was taken to the Income Statement as a result of the Directors having reassessed the carrying value of certain capitalised exploration expenditure and plant and equipment relating to the Mt Carbine Sublease. This impairment expense was made up of $5,635,332 in deferred exploration and evaluation expenditure plus $2,154,760 for plant and equipment. The uncertainty surrounding the unresolved sublease issues at the time of the impairment will be resolved upon the successful completion of the SPA. See Notes 7,8 and 17 for further information.

As the Group is an exploration and development entity, ongoing exploration and development activities are reliant on future capital raisings. During the year, the Company raised $1,682,492 (after share issue costs) from a Placement to Professional and Sophisticated Investors.

End of audited remuneration report.

INDEMNIFICATION AND INSURANCE OF OFFICERS AND AUDITORS

Indemnification

The Company has not, during or since the end of the financial period, in respect of any person who is or has been an Officer of the Company or a related body corporate indemnified or made any relevant agreement for indemnifying against a liability incurred as an Officer, including costs and expenses in successfully defending legal proceedings.

Insurance Premiums

During the financial period the Company has paid premiums to insure each of the Directors and Officers against liabilities for costs and expenses incurred by them in defending any legal proceedings arising out of their conduct whilst acting in the capacity of a Director or Officer of the Company, other than conduct involving a wilful breach of duty in relation to the Company.

The premiums paid are not disclosed as such disclosure is prohibited under the terms of the contract.

AUDIT AND NON–AUDIT SERVICES

During the financial year, the following fees for audit and non-audit services were paid or payable to BDO Audit (NTH QLD) Pty Ltd and Nexia Melbourne Audit Pty Ltd:

	2018	2017
	$	$
Audit-related services		
Amounts paid or payable to BDO Audit (NTH QLD) Pty Ltd		
- Audit services	**36,000**	36,000
Amounts paid or payable to Nexia Melbourne Audit Pty Ltd		
- Audit services	**20,000**	-
Taxation services		
Amounts paid or payable to BDO Audit (NTH QLD) Pty Ltd		
- Tax compliance services (tax returns)	**7,600**	7,000
Amounts paid or payable to Nexia Melbourne Audit Pty Ltd		
- Tax compliance services (tax returns)	**-**	-
	63,600	43,000

The Directors are satisfied that the provision of non-audit services during the year by the auditor is compatible with the general standard of independence for auditors imposed by the *Corporations Act 2001.*

On the advice of the Audit Committee, the Directors are satisfied that the provision of non-audit services by the auditor, as set out above, did not compromise the auditor independence requirements of the *Corporations Act 2001* for the following reasons:

- all non-audit services have been reviewed by the Audit Committee to ensure that they do not impact the integrity and objectivity of the auditor; and
- none of the non-audit services undermine the general principles relating to auditor independence as set out in APES 110 *Code of Ethics for Professional Accountants.*

AUDITOR'S INDEPENDENCE DECLARATION

A copy of the Auditor's Independence Declaration as required under section 307C of the *Corporations Act* 2001 is set out and located after the Directors' Declaration and forms part of this Report.

CORPORATE GOVERNANCE

A statement disclosing the extent to which the Company has followed the best practice recommendations set by the ASX Corporate Governance Council during the period is displayed on the Company's website.

Signed at Melbourne this 28th day of September 2018 in accordance with a resolution of the Directors.

RUSSELL KRAUSE

Executive Chairman

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE YEAR ENDED 30 JUNE 2018

	Note	2018	2017
		$	$
Revenue	2	**29,546**	26,937
Other income	2	**13,228**	846,241
Administration expenses		**(198,698)**	(335,320)
Consultant expenses		**(366,377)**	(448,129)
Depreciation	7	**(1,101)**	(886,669)
Development and testwork costs		**(51,833)**	(84,744)
Loss on revaluation of financial assets	4	**(76,166)**	(441,976)
Gain/(Loss) on revaluation of investments		**3,996**	(2,836)
Exploration expenses written off		**(454,898)**	(335,303)
Plant and equipment written down	7, 17	**-**	(2,154,760)
Deferred exploration and evaluation assets written down	8, 17	**-**	(5,635,332)
Finance costs		**(2,627)**	(11,636)
Foreign exchange gains (losses)		**-**	5,769
Occupancy expenses		**(40,117)**	(45,196)
Salaries and employee benefits expense		**(269,020)**	(254,348)
Superannuation		**(8,075)**	(8,075)
Travel and accommodation		**(50,124)**	(68,843)
Other expenses		**(6,480)**	(54,490)
LOSS BEFORE INCOME TAX EXPENSE		**(1,478,746)**	(9,888,710)
INCOME TAX EXPENSE	3	**-**	-
LOSS AFTER INCOME TAX EXPENSE	12	**(1,478,746)**	(9,888,710)
Other comprehensive income for the year		**-**	**-**
TOTAL COMPREHENSIVE (LOSS) ATTRIBUTABLE TO OWNERS OF SPECIALITY METALS INTERNATIONAL LIMITED		**(1,478,746)**	(9,888,710)
		Cents	**Cents**
Basic loss per share	12	**(0.29)**	(2.27)
Diluted loss per share	12	**(0.29)**	(2.27)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 30 JUNE 2018

	Note	2018 $	2017 $
CURRENT ASSETS			
Cash assets	20(b)	**602,675**	1,048,000
Trade and other receivables		**23,989**	51,264
Financial assets	4	**800,000**	41,453
Prepayments		**64,865**	63,065
TOTAL CURRENT ASSETS		**1,491,529**	1,203,782
NON-CURRENT ASSETS			
Receivables	6	**771,521**	746,719
Plant and equipment	7	**3,861**	2,839
Deferred exploration and evaluation expenditure	8	**596,066**	596,066
Financial assets	4	**6,317**	2,320
TOTAL NON-CURRENT ASSETS		**1,377,765**	1,347,944
TOTAL ASSETS		**2,869,294**	2,551,726
CURRENT LIABILITIES			
Payables	9	**164,582**	139,319
Employee Benefits		**26,129**	21,797
Financial liabilities	10	**-**	14,109
TOTAL CURRENT LIABILITIES		**190,711**	175,225
NON-CURRENT LIABILITIES			
Employee Benefits		**6,147**	5,000
TOTAL NON-CURRENT LIABILITIES		**6,147**	5,000
TOTAL LIABILITIES		**196,858**	180,225
NET ASSETS		**2,672,436**	2,371,501
EQUITY			
Issued capital	11	**3,553,567**	1,797,341
Reserves		**437,615**	574,160
Accumulated losses		**(1,318,746)**	-
TOTAL EQUITY		**2,672,436**	2,371,501

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 30 JUNE 2018

		Consolidated	
		2018	2017
	Note	**$**	$
CASH FLOWS FROM OPERATING ACTIVITIES			
Payment to suppliers and employees		**(1,405,253)**	(1,512,422)
R & D Tax concession offset received		**-**	572,918
Diesel fuel rebate		**5,074**	6,015
Interest paid		**-**	(12,725)
Interest received		**31,412**	29,766
NET CASH FLOWS USED IN OPERATING ACTIVITIES	19(a)	**(1,368,767)**	(916,448)
CASH FLOWS FROM INVESTING ACTIVITIES			
Payments for the purchase of plant and equipment		**(2,614)**	(1,768)
Payments for the purchase of Mt Carbine Quarries Pty Ltd	4	**(800,000)**	-
Proceeds from the sale or disposal of plant and equipment		**12,727**	12,000
Payments for the purchase of Tenements		**-**	(55,000)
Payments for Tenement Security Deposits		**(25,300)**	(20,500)
Proceeds from the release of Other Security Deposits		**498**	1,539
NET CASH FLOWS USED IN INVESTING ACTIVITIES		**(814,689)**	(63,729)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from the issue of shares		**1,847,746**	1,370,367
Payments for share issue costs		**(109,615)**	(75,670)
Loans repaid		**-**	(27,933)
NET CASH FLOWS FROM FINANCING ACTIVITIES		**1,738,131**	1,266,764
Net (decrease)/increase in cash held		**(445,325)**	286,587
Add opening cash brought forward		**1,048,000**	761,413
CLOSING CASH CARRIED FORWARD	19(b)	**602,675**	1,048,000

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 30 JUNE 2018

	Attributable to the Shareholders of Speciality Metals International Limited			
CONSOLIDATED	**Issued Capital $**	**Accumulated Losses $**	**Reserves $**	**Total Equity $**
AT 1 JULY 2016	30,873,793	(20,650,098)	520,875	10,744,570
Loss for the period	-	(9,888,710)	-	(9,888,710)
Other comprehensive income for the period	-	-	-	-
Total comprehensive loss for the period	**-**	**(9,888,710)**	**-**	**(9,888,710)**
Transactions with owners in their capacity as owners				
Issue of share capital	1,538,026	-	-	1,538,026
Share issue costs	(75,670)	-	-	(75,670)
Reduction of capital - s258F	(30,538,808)	30,538,808	-	-
Share based payments	-	-	53,285	53,285
Total transactions with owners in their capacity as owners	**(29,076,452)**	**30,538,808**	**53,285**	**1,515,641**
BALANCE AT 30 JUNE 2017	**1,797,341**	**-**	**574,160**	**2,371,501**
AT 1 JULY 2017	**1,797,341**	**-**	**574,160**	**2,371,501**
Loss for the period	-	-	-	-
Other comprehensive income for the period	-	(1,478,746)	-	(1,478,746)
Total comprehensive loss for the period	-	(1,478,746)	-	(1,478,746)
Issue of share capital	1,873,734	-	-	1,873,734
Share issue costs	(117,508)	-	-	(117,508)
Share based payments	-	-	23,455	23,455
Lapse of options	-	160,000	(160,000)	-
Total transactions with owners in their capacity as owners	1,756,226	160,000	(136,545)	1,779,681
BALANCE AT 30 JUNE 2018	**3,553,567**	**(1,318,746)**	**437,615**	**2,672,436**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(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. The ability of the Company to continue to adopt the going concern assumption will depend on future successful capital raisings, the successful development and subsequent exploitation of the Company's tenements and/or sale of non-core assets.

The Directors are cognisant of the fact that future development and administration activities are constrained by available cash assets and believe future identified cash flows are sufficient to fund the short-term working capital and forecasted exploration requirements of the Company.

The reliance on raising additional funding by capital raisings or other alternative funding arrangements give rise to the existence of a material uncertainty that may cast significant doubt on the Company's ability to continue as a going concern. If the Company is unable to continue as a going concern, it will be required to realise its assets and extinguish its liabilities other than in the normal course of business and at amounts that may be different to those stated in the financial statements.

The Directors are confident of securing funds if and when necessary to meet the Company's obligations as and when they fall due and consider the adoption of the going concern basis to be appropriate in the preparation of these financial statements.

(b) Basis of Preparation

These general purpose financial statements have been prepared in accordance with the requirements of the Australian Accounting Standards, Australian Accounting Interpretations, other authoritative pronouncements of the Australian Accounting Standards Board and the *Corporations Act 2001*. These financial statements have been prepared on a historical cost basis. The financial report is presented in Australian currency. The consolidated entity operates on a for-profit basis.

(c) Statement of Compliance

The financial statements have been prepared and comply with Australian Accounting Standards. The financial statements also comply with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board.

(d) Basis of Consolidation

The consolidated financial statements comprise the financial statements of Speciality Metals International Limited ("the Company" or "Speciality Metals") and its subsidiaries ("the Group") as at 30 June each year. Subsidiaries are entities over which the Company has control. Control is defined as entities which the group has rights to or is exposed to variable returns from its involvement with the entity and has the ability to use its power to affect those returns.

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

Adjustments are made to bring into line any dissimilar accounting policies that may exist.

All inter-company balances and transactions, including unrealised profits arising from intra-group transactions, have been eliminated in full.

Subsidiaries are fully consolidated from the date upon which control is transferred to the Group and cease to be consolidated from the date upon which control is transferred out of the Group.

(e) Derivative Financial Instruments

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently re-measured to their fair value at each reporting date. The accounting for subsequent changes in fair value depends on the nature of the derivative.

Derivatives are classified as current or non-current depending on the expected period of realisation.

The Company placed shares with Lanstead Capital LP in the 2016 financial year and at the same time entered into a Sharing Agreement in respect of the subscription for which consideration was received monthly over an 18-month period as disclosed in the notes to these financial statements. The amount receivable each month was dependent upon the Company's share price performance. The monthly instalments concluded in November 2017. Refer to Note 4 for details.

(f) Property, Plant and Equipment

Plant and equipment is stated at cost less accumulated depreciation and any impairment in value. Depreciation is calculated either on a diminishing value or straight-line basis over the estimated useful life of the asset. Plant and equipment useful life ranges from 2 – 10 years.

Impairment

The carrying values of plant and equipment are reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable.

An item of plant and equipment is derecognised upon disposal.

Any gain or loss arising on de-recognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in the income statement in the period the item is derecognised.

(g) Borrowings

Borrowings are initially measured at fair value, and are subsequently measured at amortised cost, using the effective interest rate method. Any difference between the proceeds (net of transaction costs) and the settlement or redemption of borrowings is recognised over the term of the borrowings in accordance with the accounting policy for borrowing costs.

Borrowings are classified as current unless the Group has an unconditional right to defer the settlement of the liability for at least 12 months after the reporting date.

(h) Recoverable Amount of Assets

At each reporting date, the Group assesses whether there is any indication that an asset may be impaired. Where an indicator of impairment exists, the Group makes a formal estimate of the recoverable amount. Where the carrying amount of an asset exceeds its recoverable amount the asset is considered impaired and is written down to its recoverable amount.

Recoverable amount is the greater of fair value less costs to sell and value in use.

(i) Exploration, Evaluation, Development and Restoration Costs

Exploration and Evaluation

Exploration and evaluation expenditure incurred by or on behalf of the Company is accumulated separately for each area of interest. Such expenditure comprises net direct costs and an appropriate portion of related overhead expenditure but does not include general overheads or administrative expenditure not having a specific connection with a particular area of interest.

Exploration and evaluation costs in relation to separate areas of interest for which rights of tenure are current are brought to account in the year in which they are incurred and carried forward provided that:

- Such costs are expected to be recouped through successful development and exploitation of the area, or alternatively through its sale; or
- Exploration and/or evaluation activities in the area have not yet reached a stage which permits a reasonable assessment of the existence or otherwise of economically recoverable reserves.

Once a development decision has been taken, all past and future exploration and evaluation expenditure in respect of the area of interest is aggregated within costs of development.

Exploration and Evaluation – Impairment

The Directors assess at each reporting date whether there is an indication that an asset has been impaired and for exploration and evaluation costs whether the above carry forward criteria are met.

Accumulated costs in respect of areas of interest are written off or a provision made in profit or loss when the above criteria do not apply or when the Directors assess that the carrying value may exceed the recoverable amount. The costs of productive areas are amortised over the life of the area of interest to which such costs relate on the production output basis, provisions would be reviewed and if appropriate, written back.

Development

Development expenditure incurred by or on behalf of the Company is accumulated separately for each area of interest in which economically recoverable reserves have been identified to the satisfaction of the Directors. Such expenditure comprises net direct costs and, in the same manner as for exploration and evaluation expenditure, an appropriate portion of related overhead expenditure having a specific connection with the development property.

All expenditure incurred prior to the commencement of commercial levels of production from each development property is carried forward to the extent to which recoupment out of revenue to be derived from the sale of production from the relevant development property, or from the sale of that property, is reasonably assured.

No amortisation is provided in respect of development properties until a decision has been made to commence mining. After this decision, the costs are amortised over the life of the area of interest to which such costs relate on a production output basis.

Remaining Mine Life

In estimating the remaining life of the mine at each mine property for the purpose of amortisation and depreciation calculations, due regard is given not only to the volume of remaining economically recoverable reserves but also to limitations which could arise from the potential for changes in technology, demand, product substitution and other issues that are inherently difficult to estimate over a lengthy time frame.

(j) Cash and Cash Equivalents

Cash and short-term deposits in the Statement of Financial Position comprise cash at bank and in hand and short-term deposits with an original maturity of three months or less.

For the purposes of the Statement of Cash Flows, cash and cash equivalents consist of cash and cash equivalents as defined above, net of any outstanding bank overdrafts, if any.

(k) Revenue

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Company and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognised:

Interest

Revenue is recognised as the interest accrues (using the effective interest method, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial instrument) to the net carrying amount of the financial asset.

Research and Development Refundable Tax Offset

The Research and Development Refundable Tax Offset is recognised as revenue when it is received.

(l) Income Tax

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted at reporting date.

Deferred income tax is provided on all temporary differences at reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred income tax liabilities are recognised for all taxable temporary differences:

- Except where the deferred income tax liability arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- In respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, except where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred income tax assets are recognised for all deductible temporary differences, carry-forward of unused tax assets and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, the carry-forward of unused tax assets and unused tax losses can be utilised:

- Except where the deferred income tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- In respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred income tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilised.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date.

Income taxes relating to items recognised directly in equity are recognised in equity and not in profit or loss.

(m) Other Taxes

Revenues, expenses and assets are recognised net of the amount of GST except:

- Where the GST incurred on a purchase of goods and services is not recoverable from the taxation authority, in which case the GST is recognised as part of the cost of acquisition of the asset or as part of the expense item as applicable; and
- Receivables and payables are stated with the amount of GST included.

The net amount of GST recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the Balance Sheet.

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

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

(n) Currency

Both the functional and presentation currency is Australian dollars (A$).

(o) Investment in Subsidiaries

The parent entity's investment in its subsidiaries is accounted for under the cost method of accounting in the Company's financial statements included in Note 16.

(p) Critical Accounting Judgements, Estimates and Assumptions

The preparation of the financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts in the financial statements. Management continually evaluates its judgements and estimates in relation to assets, liabilities, contingent liabilities, revenue and expenses. Management bases its judgements, estimates and assumptions on historical experience and on other various factors, including expectations of future events, which management believes to be reasonable under the circumstances. The resulting accounting judgements and estimates will seldom equal the related actual results. The judgements, estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

Impairment of Non-Financial Assets

The consolidated entity assesses impairment of non-financial assets at each reporting date by evaluating conditions specific to the consolidated entity and to the particular asset that may lead to impairment. If an impairment trigger exists, the recoverable amount of the asset is determined. This involves fair value less costs to sell or value-in-use calculations, which incorporate a number of key estimates and assumptions. Refer to notes 7, 8, and 17 for further detail regarding judgements made when assessing impairment of plant and equipment and deferred exploration and evaluation costs and determining their recoverable amount.

Derivative Financial Instruments

The recoverable value of derivative financial assets is dependent on the Company's share price. Management has estimated the recoverable value at year end based on the share price at that date.

(q) Segment Reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision maker. The chief operating decision maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the Board of Directors of Speciality Metals International Limited.

2. REVENUE AND OTHER INCOME

	2018	2017
Revenue	**$**	$
Interest received – other persons/corporation	**29,546**	26,937
	29,546	26,937
Other income		
Research and development tax concession refund	**-**	572,918
Reimbursement and loan facility set-off	**-**	261,879
Gain on disposal of non current assets	**12,236**	-
Diesel fuel rebates	**992**	6,015
Other income	**-**	5,429
	13,228	846,241
Total revenue and other income	**42,774**	873,178

3. INCOME TAX

	2018	2017
(a) Income tax expense	**$**	$
Current income tax		
Current income tax benefit	**(406,655)**	(2,576,245)
Current income tax benefit not recognised	**385,893**	421,050
Deferred income tax		
Relating to deductible and taxable temporary differences	**20,762**	2,155,195
Income tax (benefit)/expense	**-**	-
(b) Reconciliation of income tax expense to prima facie tax payable		
Loss before income tax	**(1,478,746)**	(9,888,710)
Tax at the Australian rate of 27.5% (2016: 30%)	**(406,655)**	(2,719,395)
Tax effect of amounts which are not taxable in calculating taxable income:		
Other	**20,762**	143,150
Deferred tax asset not recognised	**385,893**	2,576,245
	-	-
(c) Deferred tax		
Assets		
Accrued expenses	**19,390**	24,470
Employee leave liabilities	**8,876**	7,369
Impairment - plant and equipment	**-**	592,559
Deferred tax asset not recognised	**153,490**	(443,137)
	181,756	181,261
Liabilities		
Capitalised exploration and evaluation expenditure	**163,918**	163,918
Prepaid expenses	**17,838**	17,343
	181,756	181,261
Net deferred tax asset	**-**	-
(d) Unrecognised deferred tax assets		
Deferred tax assets have not been recognised in respect of the following items:		
Tax losses	**5,082,592**	5,033,352
Timing differences	**153,490**	443,137
	5,236,082	5,476,489

No provision for income tax is considered necessary in respect of the Company for the period ended 30 June 2018.

Deferred tax assets have not been recognised in respect of these items because it is not probable in the short to medium term that these assets will be realised. The Group has total tax losses at 30 June 2018 of $19,040,298 (2017: $18,303,099). A future income tax benefit which may arise from tax losses of 27.5% of approximately $5,236,082 will only be obtained if:

- The Parent and the Subsidiaries derive future assessable income of a nature and of an amount sufficient to enable the benefit from the deductions for the losses to be realised;
- The Parent and the Subsidiaries continue to comply with the conditions for deductibility imposed by the law; and
- No changes in tax legislation adversely affect the Parent and the Subsidiaries in realising the benefit from the deductions for the losses, i.e. current tax legislation permits carried forward tax losses to be carried forward indefinitely.

No franking credits are available for subsequent years.

Tax consolidation

The tax consolidation scheme is applicable to the Company. As at the date of this report the Directors have not assessed the financial effect, if any, the scheme may have on the Company and the consolidated entities and accordingly the Directors have not made a decision whether or not to be taxed as a single entity. The financial effect of the tax consolidation scheme on the Group has not been recognised in the financial statements.

4. FINANCIAL ASSETS

	2018	2017
	$	$
Current		
Non refundable deposit on purchase of Mt Carbine Quarries Pty Ltd[1]	**130,000**	-
Refundable deposit on purchase of Mt Carbine Quarries Pty Ltd[1]	**670,000**	-
Derivative financial asset[2]	**-**	41,453
Total current	**800,000**	41,453
Non-Current		
Derivative financial asset[2]	**-**	-
Other - Shares in listed companies:		
Sovereign Gold Company Ltd	**6,317**	2,320
Total Non-Current	**6,317**	2,320

[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. As the SPA is subject to the Company obtaining adequate financing. $670,000 of the total deposit paid is refundable should the purchase not proceed.

[2] In November 2015 and March 2016, the Company entered into two separate agreements with Lanstead Capital LP ("Lanstead"), Tranche A and Tranche B Share Subscription Agreements and Tranche A and Tranche B Sharing Agreements. Under the Share Subscription Agreements 75,000,000 ordinary shares were issued to Lanstead for a cash consideration of $1,875,000. A value payment of 8,000,000 shares was issued to Lanstead as consideration for entering into the Sharing Agreements. $281,250 was received upon subscription with the balance of $1,593,750 invested by the Company in Sharing Agreements, to be returned in monthly instalments commencing in January 2016 (Tranche A) and May 2016 (Tranche B).

Shares issued	**Shares**	$
Shares issued on subscription to agreement	18,750,000	281,250
Value payment issued to Lanstead	8,000,000	-
Shares subject to sharing agreement	56,250,000	1,593,750
	83,000,000	1,875,000

Under the Sharing Agreement, monthly settlements are made based a five-day volume weighted average price (VWAP) of the Company's shares relative to a benchmark price of $0.033. If the market price of the Company's shares exceeds the benchmark price, a payment is made by Lanstead to the Company, with the amount of the payment depending on the amount by which the market price exceeds the benchmark price. If the market price of the Company's shares is less than the benchmark prices, then a payment is made by the Company to Lanstead, with the amount of the payment depending on the amount by which the market price is less than the benchmark prices. The monthly instalments concluded in November 2017. The reconciliation of movements in derivative assets and liabilities and cash received to loss on derivative investments is shown as follows:

Reconciliation to loss on derivative investment	**2018**	2017
	$	$
Cash received	**47,707**	564,367
Net movement in Lanstead receivable	**(8,686)**	1,095
Net movement in derivative financial assets (fair value)	**(41,453)**	(1,132,374)
Net movement in derivative financial liability	**-**	875,561
Net movement in issued capital	**(73,734)**	(750,625)
Loss on derivative investment	**(76,166)**	(441,976)

5. AUDITORS' REMUNERATION

Audit-related services		
Amounts paid or payable to BDO Audit (NTH QLD) Pty Ltd		
- Audit services	**36,000**	36,000
Amounts paid or payable to Nexia Melbourne Audit Pty Ltd		
- Audit services	**20,000**	-
Taxation Services		
Amounts paid or payable to BDO Audit (NTH QLD) Pty Ltd		
- Tax compliance services (tax returns)	**7,600**	7,000
Amounts paid or payable to Nexia Melbourne Audit Pty Ltd		
- Tax compliance services (tax returns)	**-**	-
	63,600	43,000

6. RECEIVABLES – NON-CURRENT

Tenement security deposits	**771,421**	746,121
Other security deposits	**100**	598
	771,521	746,719

The tenement deposits are restricted so that they are available for any rehabilitation that may be required on the mining exploration tenements (refer to Notes 14 and 15).

7. PLANT AND EQUIPMENT

	2018 $	2017 $
Plant and equipment – at cost	**7,923**	**26,709**
Accumulated depreciation	**(4,062)**	**(23,870)**
	3,861	**2,839**

Reconciliation of the carrying amount of plant and equipment at the beginning and end of the current and previous financial year

	2018 $	2017 $
Carrying amount at beginning	**2,839**	3,049,071
Additions	**2,614**	1,768
Disposals	**(491)**	(6,571)
Plant and equipment written down	**-**	(2,154,760)
Depreciation expense	**(1,101)**	(886,669)
	3,861	**2,839**

8. DEFERRED EXPLORATION AND EVALUATION EXPENDITURE

	2018 $	2017 $
Costs brought forward	**596,066**	6,176,398
Costs incurred during the period	**-**	55,000
Exploration and evaluation expenditure written down	**-**	(5,635,332)
Costs carried forward	**596,066**	596,066
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	**596,066**	596,066

During the 2017 financial year Directors impaired plant and equipment relating to the Mt Carbine Tungsten Project by an amount of $2,154,760. See Note 17 for further information.

The above amounts represent costs of areas of interest carried forward as an asset in accordance with the accounting policy set out in Note 1. The ultimate recoupment of deferred exploration and evaluation expenditure in respect of an area of interest carried forward is dependent upon the discovery of commercially viable reserves and the successful development and exploitation of the respective areas or alternatively sale of the underlying areas of interest for at least their carrying value. Amortisation, in respect of the relevant area of interest, is not charged until a mining operation has commenced.

The Directors reassess the carrying value of the Group's tenements at each half year, or at a period other than that, should there be any indication of impairment. During the 2017 financial year the Directors assessed the carrying value of certain capitalised exploration expenditure and plant and equipment relating to the Mt Carbine Sublease and impaired in full deferred exploration and evaluation expenditure in the sum of $5,635,332. The uncertainty surrounding the unresolved sublease issues at the time of the impairment will be resolved upon the successful completion of the SPA. The Directors have not impaired the highly prospective Iron Duke tungsten project at Mt Carbine which remains in good standing. See Note 17 for further information.

9. CURRENT LIABILITIES – PAYABLES

	2018 $	2017 $
Trade creditors	**88,391**	43,716
Accrued expenses	**70,508**	88,980
Other	**37,959**	33,420
	196,858	166,116

10. FINANCIAL LIABILITIES

	2018 $	2017 $
Current		
Unissued shares liability (i)	-	**14,109**
Derivative financial liability (ii)	-	-
Designated at fair value through profit and loss	-	-
Total current financial liabilities	-	**14,109**
Non-Current		
Derivative financial liability (ii)	-	-
Total financial liabilities	-	**14,109**

(i) During the year ended 30 June 2017, a share placement liability arose due to work undertaken by a consultant and agreement was reached for the payment of these services through the issue of shares. This liability was reversed in the 2018 financial year after the monthly instalments concluded in November 2017.

(ii) As announced by the Company on 18 November 2015, the Company entered into a Sharing Agreement with Lanstead Capital LP (‘Lanstead’) to allow the Company to retain much of the economic interest in the 56,250,000 shares subscribed by Lanstead (see Notes 4 and 11). The derivative financial liability resulting from the Sharing Agreement is amortised over the period of the Sharing Agreement in 18 equal monthly instalments commencing from 1 January 2016 (Tranche A) and May 2016 (Tranche B). The monthly instalments concluded in November 2017.

11. CONTRIBUTED EQUITY

	2018	2017
Share Capital	**$**	$
554,876,418 (2017: 482,876,418) ordinary shares fully paid	**3,553,567**	1,797,341

(a) Movements in Ordinary Share Capital

1 July 2017 to 30 June 2018	Date	Number of Shares	Issue Price	$
Balance b/fwd		**482,876,418**		**1,797,341**
Placement to institutional and sophisticated investors	06-02-2018	68,000,000	$0.025	1,700,000
Placement to non executive director following approval by shareholder at the General Meeting held on 22 June 2018.	22-06-2018	4,000,000	$0.025	100,000
Lanstead Capital LP - Tranche B - subject to an 18 month sharing agreement – remaining 5 of 18 instalments settled.	30-06-2018	**	***	73,734
Share issue costs				(117,508)
Balance as at 30 June 2018		**554,876,418**		**3,553,567**

1 July 2016 to 30 June 2017	Date	Number of Shares	Issue Price	Total $
Balance b/fwd		**418,415,995**		**30,873,793**
Shares issued to consultant	08-07-2016	460,423	$0.025	11,281
Placement to professional and sophisticated investors	28-03-2017	62,000,000	$0.013	806,000
Shares issued to consultant	28-04-2017	2,000,000	$0.013	26,000
Lanstead Capital LP - Tranche A - subject to an 18 month sharing agreement – 17 of 18 instalments settled	30-06-2017	**	***	410,198
Lanstead Capital LP - Tranche B - subject to an 18 month sharing agreement – 13 of 18 instalments settled	30-06-2017	**	***	284,547
Share issue costs				(75,670)
Reduction of Capital - S258F*		-	-	(30,538,808)
Balance as at 30 June 2017		**482,876,418**		**1,797,341**

* On 30 June 2017 the Company reduced its share capital by $30,538,808 in accordance with Section 258F of the Corporations Act.

** Underlying shares were issued in the prior financial year.

*** Issue price subject to Sharing Agreement with Lanstead Capital LP

Terms and Conditions of Contributed Equity

Ordinary Shares

Ordinary shares have the right to receive dividends as declared and in the event of winding up 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 the shares held.

Ordinary shares entitle their holder to one vote, either in person or by proxy, at a meeting of the Company. Option holders have no voting rights until the options are exercised.

Options

The following options are outstanding at the end of the reporting period.

(b) Movements in Options

	Date	**Number of Options**	**Exercise Price**	**Maturity**
Unlisted Options and Performance Rights				
Options issued to Directors as remuneration approved by shareholders at the 2014 AGM	12-11-14	8,000,000	$0.20	12-11-17
Options lapsed unexercised on 12 November 2017		(8,000,000)		
Balance as at 30 June 2018		-		

Performance Rights

The following performance rights are outstanding at the end of the reporting period.

(b) Movements in Performance Rights

	Date	**Number of Performance Rights**	**Vesting conditions**	**Maturity**
Unlisted Performance Rights				
Performance Rights granted to Directors as remuneration approved by shareholders at the 2018 General Meeting held on 22 June 2018.	22-06-18	25,000,000	**	22-06-20
Balance as at 30 June 2018		**25,000,000**		

****** Following approval by shareholders at the General Meeting held on 22 June 2018, the Company granted Performance Rights to Directors in accordance with the terms approved by shareholders. See Note 22 for further information.

12. EARNINGS PER SHARE

	2018	2017
	$	$
Loss after income tax attributable to the owners of Speciality Metals International Limited used in calculating basic and diluted earnings per share	**(1,478,746)**	**(9,888,710)**
	Number	Number
Weighted average number of ordinary shares on issue used in the calculation of basic loss per share	**509,988,747**	435,355,259
Weighted average number of ordinary shares used in calculating diluted earnings per share. Note options outstanding at reporting date have not been brought to account as they are anti-dilutive.	**509,988,747**	435,355,259
	Cents	Cents
Basic (loss) per share (cents)	**(0.29)**	(2.27)
Diluted loss per share (cents)	**(0.29)**	(2.27)

13. KEY MANAGEMENT PERSONNEL COMPENSATION

	2018 $	2017 $
Short-term employee benefits	**332,363**	387,475
Post-employment benefits	**-**	-
Other long-term benefits	**-**	-
Termination benefits	**-**	-
Share based payments	**-**	-
Balance at the end of period	**332,363**	387,475

14. CONTINGENT LIABILITIES

The Group has provided guarantees totalling $771,421 in respect of mining exploration tenements and environmental bonds. These guarantees in respect of mining and exploration 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.

15. COMMITMENTS

Exploration Licence Expenditure Requirements - In order to maintain the Company's tenements in good standing with the various mines departments, the Company will be required to incur exploration expenditure under the terms of each licence. These expenditure requirements will diminish if the Group joint ventures projects to third parties. It is likely that the granting of new licences and changes in licence areas at renewal or expiry will change the expenditure commitment of the Group from time to time.

	2018 $	2017 $
Payable not later than one year	**2,773,000**	1,488,000
Payable later than one year but not later than two years	**3,577,000**	6,170,000
	6,350,000	7,658,000

16. INVESTMENT IN SUBSIDIARIES

	Equity Interest		Cost of Parent Entity's Investment	
Parent Entity	**2018**	2017	**2018**	2017
Speciality Metals International Limited	**%**	%	**$**	$
Controlled Entities				
South Eastern Resources Pty Ltd	**100**	100	**3**	3
Cast Resources Pty Ltd	**100**	100	**2**	2
Troutstone Resources Pty Ltd	**100**	100	**2**	2
Kaowest Pty Ltd	**100**	100	**-**	-
Icon Resources Africa Pty Ltd	**100**	100	**10**	10
Special Metals Chile SpA	**100**	-	**6,060**	-

Speciality Metals International Limited and all of its subsidiaries, with the exception of Special Metals Chile SpA, are located and incorporated in Australia.

17. IMPAIRMENT OF DEFERRED EXPLORATION EXPENDITURE AND PLANT AND EQUIPMENT

The Directors reassess the carrying value of the Group's assets including deferred exploration expenditure, tenements and plant and equipment at each half year, or at a period other than that, should there be any indication of impairment to fair value. When making their assessment for the 2017-2018 financial year the Directors took the following into consideration:

During the financial year the Company fulfilled its diversification commitments to reduce the Company's exposure to one metal commodity whilst maintaining its tungsten assets at Mt Carbine in Far North Queensland. As part of its diversification process the Company now holds two (2) gold prospects in NSW and twenty-five (25) exploration concessions within Northern Chile as part of its exploration work for lithium and other valuable minerals. The Company has also maintained its two tungsten focused Exploration Permits (EPM 14871 & EPM 14872) located at Mt Carbine, North Queensland which were both renewed for a further term of 5 years to December 2020. EPM 14872 contains both the Iron Duke and Petersen's Lode prospects whilst EPM 14871 features the Mt Holmes tin-tungsten prospect.

The Company believes that EPM 14872 holds significant exploration upside given that the tungsten grades indicated in the sampling of the Iron Duke and Petersen's Lode are extensively higher than the estimated global average grade in the present open-pit resource within the Mt Carbine Sublease. These unencumbered, greenfield sites also offer the added advantage of having minimal environmental legacy issues.

During the 2017 financial year the Directors assessed the carrying value of certain capitalised exploration expenditure and plant and equipment relating to the Mt Carbine Sublease and impaired in full deferred exploration and evaluation expenditure in the sum of $5,635,332 and plant and equipment in the sum of $2,154,760 resulting in an impairment expense of $7,790,092 taken to the Income Statement for the 2017 financial year. The uncertainty surrounding the unresolved sublease issues at the time of the impairment will be resolved upon the successful completion of the SPA. The Directors have not impaired the highly prospective Iron Duke tungsten project at Mt Carbine which remains in good standing.

Combined assets (deferred exploration and evaluation expenditure, plant and equipment and financial assets) relating to the Mt Carbine Sublease write-down and the financial impact of the impairment to determine fair value are summarised below:

COMBINED DEFERRED EXPENDITURE, PLANT AND EQUIPMENT AND FINANCIAL ASSETS

	2018	2017
Non-current assets	**$**	$
Receivables	**771,521**	716,473
	771,521	716,473
Plant and equipment		
Plant and equipment – at cost	**7,923**	26,709
Accumulated depreciation	**(4,062)**	(23,870)
	3,861	2,839
Deferred exploration and evaluation expenditure		
Exploration and evaluation expenditure	**596,066**	596,066
	596,066	596,066
TOTAL	**1,371,448**	1,315,378

Reconciliation of the carrying amount of Mt Carbine assets at the beginning and end of the current and previous financial year		
Combined assets carrying amount at the beginning of the year	**1,315,378**	9,941,466
Additions	**58,160**	56,768
Disposals	**(989)**	(6,571)
Plant and equipment written down	**-**	(2,154,760)
Exploration and evaluation expenditure written down	**-**	(5,635,332)
Depreciation expense	**(1,101)**	(886,193)
TOTAL	**1,371,448**	1,315,378

18. SUBSEQUENT EVENTS

There have been no material events subsequent to 30 June 2018 that have not previously been reported other than:

- An agreed extension to the Sale & Purchase Agreement with Mt Carbine Quarries Pty Ltd in order to conclude the financing for the Mt Carbine Quarry and Mining Leases ML 4867 and ML 4919 as announced on 31 August 2018.

19. STATEMENT OF CASH FLOWS

Reconciliation of net cash outflow from operating activities to operating loss after income tax		**2018**	2017
		$	$
(a)	Operating loss after income tax	**(1,478,746)**	(9,888,710)
	Depreciation	**1,101**	886,669
	Share based payments expense	**5,575**	53,285
	Performance rights expense	**3,771**	-
	Gain on disposal of assets	**(12,727)**	(5,769)
	Loss on disposal of assets	**491**	1,691
	Set off of loan from Mitsubishi Corporation RtM Japan Ltd	**-**	(269,582)
	Plant and equipment written down	**-**	2,154,760
	Deferred exploration and evaluation assets written down	**-**	5,635,332
	(Revaluation) Devaluation of investment to market value	**(3,996)**	2,836
	Share based creditor payments	**(7,894)**	14,109
	Unrealised foreign exchange (gains) losses	**-**	(9,029)
	Lanstead Capital LP receivable	**-**	8,687
	Loss on revaluation of derivative financial asset	**67,441**	441,976
	Change in assets and liabilities:		
	Decrease (Increase) in receivables	**27,275**	50,435
	Decrease (Increase) in other assets	**(1,800)**	4,970
	Increase/(decrease) in trade and other creditors	**30,742**	1,892
	Net cash outflow from operating activities	**(1,368,767)**	(916,448)

(b) For the purpose of the Statement of Cash Flows, cash includes cash on hand, at bank, deposits and bank bills used as part of the Company's cash management function. The Company does not have any unused credit facilities.

The balance at 30 June 2018 comprised:

Cash assets	**602,675**	1,048,000
Cash on hand	**602,675**	1,048,000

(c) The following non-cash financing and investing activities were incurred by the Company during the year.

Shares issued to creditors and employees for services rendered	**-**	26,000
Sharing Agreement with Lanstead Capital LP	**73,734**	253,817

Share Placement and Sharing Agreement

On 20 November 2015, a share placement was made to Lanstead Capital LP ("Lanstead") to raise, in aggregate, A$1,000,000 through the issue of 40,000,000 shares at the placement price of $0.025 per share. On 11 March 2016, an additional placement was made to Lanstead to raise, in aggregate, A$875,000 through the issue of 35,000,000 shares at the placement price of $0.025 per share. As part of these placements, the Company retained A$281,250 of the aggregate A$1,875,000 subscription and the balance of A$1,593,750 was invested in a Sharing Agreement with Lanstead which enables the Company to secure much of the potential upside from share price appreciation over 18 months. A value payment of 8,000,000 shares was issued to Lanstead for entering into the Sharing Agreement such that, in total and at 30 June 2018, 83,000,000 shares have been issued to Lanstead pursuant to the Subscription Agreements. The monthly instalments concluded in November 2017.

20. CORPORATE INFORMATION

The Financial Report of the Group for the year ended 30 June 2018 was authorised for issue in accordance with a resolution of the Directors on 28th September 2018.

Speciality Metals International Limited is a company limited by shares and incorporated in Australia. Its shares are publicly traded on the Australian Stock Exchange under the ticker code "SEI".

21. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Company's principal financial instruments comprise cash, short term deposits and available for sale investments.

The main purpose of these financial instruments is to finance the Company's operations. The Company has various other financial assets and liabilities such as trade receivable and trade payables, which arise directly from its operations. It is, and has been throughout the entire period under review, the Company's policy that no trading in financial instruments shall be undertaken.

The main risks arising from the Company's financial instruments are cash flow interest rate risk and equity price risk. Other minor risks are summarised below. The Board reviews and agrees policies for managing each of these risks.

(a) Price Risk

The Group is exposed to equity securities price risk. The Group has derivative financial assets, and investments held and classified on the Statement of Financial Position as available-for-sale, both as shown in Note 4.

(b) Liquidity Risk

The Company manages liquidity risk by maintaining sufficient cash reserves and marketable securities and through the continuous monitoring of budgeted and actual cash flows.

	2018	2017
Contracted maturities for payables year ended 30 June 2018	**$**	$
Payable:		
- less than 6 months	**164,582**	144,319
- 6 to 12 months	**-**	-
- 1 to 5 year	**-**	-
- later than 5 year	**-**	-
Total	**164,582**	144,319

(c) Fair Value of Financial Instruments

The following tables detail the consolidated entity's fair values of financial instruments categorised by the following levels:

Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2: Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (as prices) or indirectly (derived from prices).

Level 3: Inputs for the asset or liability that are not based on observable market data (unobservable inputs).

Consolidated - 2018

Assets	**Level 1**	**Level 2**	**Level 3**	**Total**
Ordinary shares	**6,316**	**-**	**-**	**6,316**
Total assets	**6,316**	**-**	**-**	**6,316**
Liabilities				
Total liabilities	**-**	**-**	**-**	**-**

Consolidated - 2017

Assets	**Level 1**	**Level 2**	**Level 3**	**Total**
Ordinary shares	**2,320**	**-**	**-**	**2,320**
Derivative financial assets	**-**	**41,453**	**-**	**41,453**
Total assets	**2,320**	**41,453**	**-**	**43,773**
Liabilities				
Derivative financial liabilities	**-**	**-**	**-**	**-**
Total liabilities		**-**	**-**	**-**

There were no transfers between levels during the financial year.

Unless otherwise stated, the carrying amounts of financial instruments reflect their fair value. The carrying amounts of trade receivables and trade payables are assumed to approximate their fair values due to their short-term nature.

The fair value of financial liabilities is estimated by discounting the remaining contractual maturities at the current market interest rate that is available for similar financial instruments.

(d) Commodity Price Risk

The Company is exposed to commodity price risk. This risk arises from its activities directed at exploration and mining development of mineral commodities. If commodity prices fall, the market for companies exploring and/or mining for these commodities is affected. The Company does not currently hedge its exposures.

(e) Fair Values

For financial assets and liabilities, the fair value approximates their carrying value. No financial assets and financial liabilities are readily traded on organised markets in standardised form, other than listed investments. The Company has no financial assets including derivative financial assets and liabilities where the carrying amount exceeds the net fair values at reporting date. The Company's receivables at reporting date are detailed in Notes 4 and 6 and comprise primarily a derivative financial asset receivable from Lanstead Capital LP and GST input tax credits refundable by the Australian Taxation Office. The balance (if any) of receivables comprises prepayments (if any). The credit risk on financial assets of the Company which have been recognised on the Statement of Financial Position is generally the carrying amount.

(f) Capital Risk Management

The consolidated entity's objectives when managing capital are to safeguard its ability to continue as a going concern, so that it can provide returns for shareholders and benefits for other stakeholders and to maintain an optimum capital structure to reduce the cost of capital. Consistently with others in the industry, the consolidated entity monitors capital on the basis of the gearing ratio. This ratio is calculated as net debt divided by total capital. Net debt is calculated as total borrowings less cash and cash equivalents. Total capital is calculated as "equity" as shown in the Statement of Financial Position plus net debt. The gearing ratio as at 30 June 2018 and 30 June 2017 was 0% as net debt was negative in both years.

In order to maintain or adjust the capital structure, the consolidated entity may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

The consolidated entity would look to raise capital when an opportunity to invest in a business or company was seen as value adding relative to the current parent entity's share price at the time of the investment. The consolidated entity is not actively pursuing additional investments in the short term as it continues to integrate and grow its existing businesses in order to maximise synergies.

The consolidated entity is subject to certain financing arrangements and covenants and meeting these is given priority in all capital risk management decisions. There have been no events of default on the financing arrangements during the financial year.

The capital risk management policy remains unchanged from the 30 June 2016 Annual Report. The consolidated entity is not subject to externally imposed capital requirements.

22. SHARE-BASED PAYMENTS

(a) Share based payments

	2018 $	2017 $
Share-based payments expense	**23,455**	**53,285**
Share-based payments capitalised	**-**	**-**
Total share-based payments	**23,455**	**53,285**

	2018 $	2017 $
Schedule of share-based payments		
Shares		
8,000,000 options issued to Directors as remuneration at an exercise price of $0.20 and expiring on 12 November 2017 as approved by shareholders at the 2014 AGM. The options lapsed unexercised on 12 November 2017.	**19,684**	53,285
25,000,000 performance rights were granted to the Directors as remuneration as approved by shareholders at the General Meeting held on 22 June 2018. The performance rights expire on 22 June 2020 and are subject to vesting conditions.	**3,771**	-
Subtotal allocated against Share Based Payment Reserve	**23,455**	53,285
Transfer to accumulated losses on lapse of options on 12 November 2017	**(19,684)**	-
Closing balance	**3,771**	53,285

(b) Options

The following table details the number, weighted average exercise prices (WAEP) and movements in share options issued for capital raising purposes, employment incentives or as payments to third parties for services during the year.

	2018 Number	2018 WAEP	2017 Number	2017 WAEP
Outstanding at the beginning of the year	8,000,000	$0.20	8,000,000	$0.20
Granted during the year	-	-	-	-
Converted/expired during the year	(8,000,000)	$0.20	-	**-**
Outstanding at the end of the year	**-**	**-**	**8,000,000**	**$0.20**

Options Issued

8,000,000 unlisted options were issued to Directors as remuneration at an exercise price of $0.20 and expiring on 12 November 2017 following approval by shareholders at the 2014 AGM and vesting immediately. The options must be exercised on or before the expiry date in cash. No listed or unlisted options were issued in the current financial year.

Options lapsed during the reporting period

8,000,000 options lapsed during the reporting period without exercise.

(c) Performance Rights

The following table details the number and movements in performance rights issued as employment incentives during the year.

	2018 Number	Total unvested and unexercisable at 30 June 2018	2017 Number	Total unvested and unexercisable at 30 June 2017
Outstanding at the beginning of the year	-	**-**	-	-
Granted during the year	25,000,000	25,000,000	-	-
Converted/expired during the year		**-**	-	**-**
Outstanding at the end of the year	25,000,000	25,000,000	**-**	**-**

(d) Performance rights issued and key terms

25,000,000 unlisted options were granted to Directors as an employment incentive following approval by shareholders at the General Meeting held on 22 June 2018 which expire on 22 June 2020 and are subject to vesting conditions. 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.

(e) Valuation of Performance Rights Granted

30 June 2018	Number of granted Performance rights	Grant date	Expiry date	Fair Value per Performance right at grant date	Total Fair Value of Performance Rights	Share-Based Payments: Expensed in prior years	Share-Based Payments: Expensed in the 2018 year	Share-Based Payments: AASB 2 Not yet expensed
Granted	25,000,000	22 Jun 2018	22 Jun 2020	$0.0132	330,000	-	3,771	326,229
	25,000,000				**330,000**	**-**	**3,771**	**326,229**

On 22 June 2018, the fair value of each performance right was $0.0132, therefore the valuation of the grant of performance rights to Directors was $330,000.

(f) Performance Rights lapsed during the reporting period

No performance rights options lapsed during the reporting period without exercise.

23. NEW ACCOUNTING STANDARDS AND INTERPRETATIONS

Adoption of New Standards and Interpretations

Changes in accounting policies on initial application of Accounting Standards

The accounting policies adopted are consistent with those of the previous financial year. From 1 July 2016, the Group has adopted all the standards and interpretations mandatory for annual periods beginning on or after 1 July 2016. Adoption of these standards and interpretations did not have any effect on the statements of financial position or performance of the Consolidated Entity. The Consolidated Entity has not elected to early adopt any new standards or amendments.

New Accounting Standards and Interpretations Issued Not Yet Effective

The following standards, amendments to standards and interpretations have been identified as those which may impact the Group in the period of initial application. They have been issued but are not yet effective and are available for early adoption at 30 June 2018, but have not been applied in preparing this financial report.

Reference and title	Details of New Standard / Amendment / Interpretation	Application date for the Group
AASB 16 (issued February 2016)	AASB 16 eliminates the operating and finance lease classifications for lessees currently accounted for under AASB 117 Leases. It instead requires an entity to bring most leases onto its balance sheet in a similar way to how existing finance leases are treated under AASB 117. An entity will be required to recognise a lease liability and a right of use asset in its balance sheet for most leases. There are some optional exemptions for leases with a period of 12 months or less and for low value leases. This standard will not apply to leases to explore for or use minerals.	**1 July 2019**

AASB 15 Revenue from contracts with customers	AASB 15 establishes principles for reporting the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers.	**1 July 2018**
AASB 9 / IFRS 9 Financial Instruments AASB 2010-7 and AASB 2012-6 Amendments to AASB's arising from AASB 9	The revised IFRS 9 will eventually replace AASB 139 and all previous versions of IFRS 9. The revised standard includes changes to the: • classification and measurement of financial assets and financial liabilities • expected credit loss impairment model • hedge accounting. Financial assets are measured at amortised cost, fair value through profit or loss, or fair value through other comprehensive income, based on both the entity's business model for managing the financial assets and the financial asset's contractual cash flow characteristics. Apart from the 'own credit risk' requirements, classification and measurement of financial liabilities is unchanged from existing requirements.	**1 July 2018**

Australian Accounting Standards and Interpretations that have recently been issued or amended but are not yet mandatory, have not been early adopted by the Company for the annual reporting period ended 30 June 2018. The Company's assessment of the impact of these new or amended Accounting Standards and Interpretations are that they will have no material effect.

Apart from the above, other accounting standards, amendments and interpretations that will be applicable in future periods have been considered, however their impact is considered insignificant to the Group

24. PARENT ENTITY INFORMATION

The following information relates to the parent entity, Speciality Metals International Limited. The information presented has been prepared using accounting policies that are consistent with those presented in Note 1.

	2018	2017
	$	$
ASSETS		
Current assets	**1,491,512**	1,203,765
Non –current assets	**1,383,842**	1,347,961
TOTAL ASSETS	**2,875,354**	2,551,726
LIABILITIES		
Current liabilities	**196,858**	180,225
Non current liabilities	**6,060**	-
TOTAL LIABILITIES	**202,918**	180,225
NET ASSETS	**2,672,436**	2,371,501
EQUITY		
Issued capital	**3,553,567**	1,797,341
Reserves	**437,615**	574,160
Accumulated losses	**(1,318,746)**	-
TOTAL EQUITY	**2,672,436**	2,371,501
FINANCIAL PERFORMANCE		
Profit (loss) for the year	**(1,478,746)**	(9,888,710)
Other comprehensive income/(loss) for the year	**-**	-
Total comprehensive profit/(loss)	**(1,478,746)**	(9,888,710)

Contingent Liabilities

As at 30 June 2018 and 30 June 2017 the Company had no contingent liabilities.

Contractual Commitments

As at 30 June 2018 and 30 June 2017 the Company had no contractual commitments other than those disclosed in Note 15.

Guarantees Entered into by Parent Entity

As at 30 June 2018, the Company has not provided any financial guarantees.

25. OPERATING SEGMENTS

Segment Information

Identification of Reportable Segments

During the year, the Company operated principally in one business segment being mineral exploration and in two geographical segments being Australia and Chile.

The Company's revenues and assets and liabilities according to geographical segments are shown below.

	June 2018			June 2017		
	Total	**Australia**	**Chile**	Total	Australia	Chile
	$	**$**	**$**	$	$	$
REVENUE						
Revenue	**42,774**	42,774	-	**873,178**	873,178	-
Total segment revenue	**42,774**	42,774	-	**873,178**	873,178	-
RESULTS						
Net loss before income tax	**(1,478,746)**	(1,305,519)	(173,227)	**(9,888,710)**	(9,809,353)	(79,357)
Income tax	**-**	-	-	**-**	-	-
Net loss	**(1,478,746)**	(1,305,519)	(173,227)	**(9,888,710)**	(9,809,353)	(79,357)
ASSETS AND LIABILITIES						
Assets	**2,869,294**	2,869,294	-	**2,551,726**	2,551,726	-
Liabilities	**196,858**	196,858	-	**180,225**	180,225	-

26. RELATED PARTY DISCLOSURES

a. The Company's main related parties are as follows:

i. *Key management personnel:*

Any person(s) having authority and responsibility for planning, directing and controlling the activities of the Company, directly or indirectly, including any director (whether executive or otherwise), are considered key management personnel.

The directors in office during the year were as follows:

- Russell Henry Krause	Appointed Non Executive Chairman on 30 June 2013; Appointed Executive Chairman on 14 November 2017.
- Roland Waynne Nice	Appointed 30 June 2013
- Stephen Layton	Appointed 14 November 2017
- Andrew James (Jim) Morgan	Appointed Managing Director and Chief Executive Officer on 2 April 2012; Resigned 14 November 2017

For details of disclosures relating to key management personnel, refer to Key Management Personnel disclosures Directors and Remuneration Report.

b. Transactions with related parties:

Transactions between related parties are on normal commercial terms and conditions no more favourable than those available to other parties unless otherwise stated.

The following transactions occurred with related parties:

i. *Other related parties:*	**2018** **$**	2017 $
Purchase of goods and services:		
Corporate advisory fees paid to Penause Pty Ltd, an entity associated with Mr Krause for Fees as Executive Chairman	**97,500**	60,000
Corporate advisory fees paid to R.W. Nice & Assoc. Pty Ltd an entity associated with Mr Nice for fees as a Non-Executive Director and Consulting Fees.	**48,000**	40,000
Corporate advisory fees paid to Bodie Investments Pty Ltd an entity associated with Mr Layton for fees as a Non-Executive Director.	**30,000**	-
Corporate advisory fees paid to Projectex Pty Ltd an entity associated with Mr Morgan for fees as Managing Director and Chief Executive Officer.	**88,667**	240,000

c. Receivable from and payable to related parties

There were no trade receivables from related parties at the current and previous reporting date. A trade payable for Director fees for RW. Nice amounting to $48,000 was recognised during the current reporting date. There were no trade payables to related parties for the previous reporting date.

d. Loans to/from related parties

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

e. Parent entity

Speciality Metals International Limited is the parent entity.

f. Subsidiaries

Interests in subsidiaries are set out in Note 16.

DIRECTORS' DECLARATION

The Directors of the Company declare that:

1. the Financial Statements, comprising the Statement of Profit or Loss and Other Comprehensive Income, Statement of Financial Position, Statement of Cash Flows, Statement of Changes in Equity and accompanying Notes, are in accordance with the Corporations Act 2001 and:

    a) comply with Accounting Standards, which, as stated in the accounting policy Note 1, to the financial statements, constitutes explicit and unreserved compliance with international Financial Reporting Standards (IFRS); and

    b) give a true and fair view of the financial position as at 30 June 2018 and of the performance for the year ended on that date of the company and consolidated group;

2. the Executive Chairman and the Chief Finance Officer have each declared that:

    a) the financial records of the company for the financial year have been properly maintained in accordance with s 286 of the *Corporations Act 2001;*

    b) the Financial Statements and notes for the financial year comply with Accounting Standards; and

    c) the Financial Statements and Notes for the financial year give a true and fair view; and

3. in the Directors' opinion there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

This declaration is made in accordance with the resolution of the Board of Directors.

On behalf of the Board

R H Krause

Executive Chairman

Melbourne, 28 September 2018

Nexia Australia

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 year ended 30 June 2018, there have been:

(i) no contraventions of the auditor independence requirements as set out in the *Corporations Act 2001* in relation to the audit; and

(ii) no contraventions of any applicable code of professional conduct in relation to the audit.

Nexia

Nexia Melbourne Audit Pty Ltd
Melbourne

Geoff S. Parker
Director

Dated this 28th day of September 2018

Nexia Melbourne Audit Pty Ltd
Registered Audit Company 291969
Level 12, 31 Queen Street
Melbourne VIC 3000
p +61 3 8613 8888
f +61 3 8613 8800
e info@nexiamelbourne.com.au
w nexia.com.au

Nexia Australia

Independent Auditor's Report to the Members of Speciality Metals International Limited

Report on the Audit of the Financial Report

Opinion

We have audited the financial report of Speciality Metals International Limited, which comprises the consolidated statement of financial position as at 30 June 2018, the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, and the Directors' declaration.

In our opinion, the accompanying financial report of Specialty Metals International Limited 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 2018 and of its financial performance for the year then ended; 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 entity 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* (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.

Material uncertainty related to going concern

We draw attention to Note 1 in the financial report, which describes the events and/or conditions which give rise to the existence of a material uncertainty that may cast significant doubt about the group's ability to continue as a going concern and therefore the group may be unable to realise its assets and discharge its liabilities in the normal course of business. Our opinion is not modified in respect of this matter.

Other information

The Directors are responsible for the other information. The other information comprises the information in Speciality Metals International Limited's annual report for the year ended 30 June 2018, 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.

Nexia Melbourne Audit Pty Ltd
Registered Audit Company 291969
Level 12, 31 Queen Street
Melbourne VIC 3000
p +61 3 8613 8888
f +61 3 8613 8800
e info@nexiamelbourne.com.au
w nexia.com.au

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 the other information we are required to report that fact. We have nothing to report in this regard.

Directors' responsibility 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 entity's ability 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 entity or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibility 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 Australian Auditing and Assurance Standards Board website at: www.auasb.gov.au/auditors_responsibilities/ar1.pdf. This description forms part of our auditor's report.

We also provide the Directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

Report on the Remuneration Report

Opinion on the Remuneration Report

We have audited the Remuneration Report included in pages 23 to 29 of the Directors' Report for the year ended 30 June 2018.

In our opinion, the Remuneration Report of Speciality Metals International Limited for the year ended 30 June 2018, 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.

Nexia

Nexia Melbourne Audit Pty Ltd
Melbourne

Geoff S. Parker
Director

Dated this 28th day of September 2018

SHAREHOLDER INFORMATION

Information relating to shareholders at 21 September 2018 (per ASX Listing Rule 4.10)

Substantial Shareholders	**Shareholding**
Dr Leon Eugene Pretorius	35,702,731
Bodie Investments Pty Ltd	29,000,000

Distribution of Shareholders as at 20 September 2017	**Number**	**Ordinary**
Number of Ordinary Shares Held	**of Holders**	**Shares**
1 – 1,000	71	12,532
1,001 – 5,000	60	205,499
5,001 – 10,000	115	1,013,498
10,001 – 100,000	670	31,563,164
100,001 – and over	561	522,081,725
	1,477	**554,876,418**

At the prevailing market price of $0.016 per share, there are 519 shareholders with less than a marketable parcel of $500.

Top 20 Shareholders of Ordinary Shares as at 21 September 2018	**Shares**	**% Shares issued**
Dr Leon Eugene Pretorius	35,702,731	6.43
Bodie Investments Pty Ltd	29,000,000	5.23
Covenant Holdings (WA) Pty Ltd <The Boyd No 3 A/C>	27,600,000	4.97
Baglora Pty Ltd <Mott Family Super Fund A/C>	18,740,165	3.38
Mota-Engil Minerals & Mining Investments BV	16,000,000	2.88
TBB NSW Pty Ltd <The Watson No 1 A/C>	13,691,190	2.47
Turbine Capital Limited	8,000,000	1.44
Mr Malcolm McClure	7,906,703	1.42
WGS Pty Ltd	7,638,888	1.38
Alan Scott Nominees Pty Ltd <Superannuation Fund A/C>	6,500,000	1.17
HSBC Custody Nominees (Australia) Limited	6,368,200	1.15
Holland Strategic Wealth Pty Ltd <Hollands Family A/C>	6,000,000	1.08
Max Mobile Auto Clinic Pty Ltd	5,218,416	0.94
Mr Paul Marchetti	5,022,662	0.91
JFSF Holdings Pty Ltd <The Jane Family S/F A/C>	5,000,000	0.90
JA Johnstone Pty Ltd <Waterhouse Super Fund A/C>	4,931,818	0.89
J P Morgan Nominees Australia Limited	4,862,000	0.88
Terstan Nominees Pty Ltd <Morrows P/L Super Fund A/C>	4,823,298	0.87
Mr Shane Victory Hardy	4,410,000	0.79
Andrew James Morgan	4,184,801	0.75
Total of Top 20 Holdings	221,600,602	39.94
Other Holdings	333,275,816	60.06
Total Fully Paid Shares Issued	554,876,418	100.00

Employee Share based Performance Plan

At a General Meeting held 22 June 2018 shareholders approved the adoption of the Speciality Metals International Limited Equity Incentive Plan. The purpose of the Plan is to attract, motivate and retain employees, provide employees an incentive and provide the ability to grant performance rights, options or shares to employees, including Executive and Non-Executive Directors. This replaces the previous Employee Awards Plan approved in 2015.

Voting rights

There are no restrictions on voting rights. On a show of hands every member present or by proxy shall have one vote and upon a poll each share shall have one vote. Where a member holds shares which are not fully paid, the number of votes to which that member is entitled on a poll in respect of those partly-paid shares shall be that fraction of one vote which the amount paid up bears to the total issued price thereof. Option holders have no voting rights until the options are exercised.

Audit Committee

At the date of the Report of the Directors, the Company has a Committee of one Executive and one Non-executive Director that meets with the Company's external auditors at least once during each half-year. These meetings take place prior to the finalisation of the Half-Year Financial Statements and Annual Report, and prior to the signing of the Audit Report.

FORWARD LOOKING STATEMENTS

Some statements contained within this report relate to the future and are forward looking statements. Such statements may include, but are not limited to, statements with regard to intention, capacity, future production and grades, projections for sales growth, estimated revenues and reserves, targets for cost savings, the construction cost of new projects, projected capital expenditures, the timing of new projects, future cash flow and debt levels, the outlook for minerals and metals prices, the outlook for economic recovery and trends in the trading environment and may be (but are not necessarily) identified by the use of phrases such as “will”, “expect”, “anticipate”, “believe” and “envisage”. By their nature, forward-looking statements involve risk and uncertainty because they relate to events and depend on circumstances that will occur in the future and may be outside Speciality Metals International Limited’s control. Actual results and developments may differ materially from those expressed or implied in such statements because of a number of factors, including levels of demand and market prices, the ability to produce and transport products profitably, the impact of foreign currency exchange rates on market prices and operating costs, operational problems, political uncertainty and economic conditions in relevant areas of the world, the actions of competitors, activities by governmental authorities such as changes in taxation or regulation.

Given these risks and uncertainties, undue reliance should not be placed on forward-looking statements and intentions which speak only as at the date of the presentation. Subject to any continuing obligations under applicable law or any relevant stock exchange listing rules, Speciality Metals does not undertake any obligation to publicly release any updates or revisions to any forward looking statements contained in this presentation, whether as a result of any change in Speciality Metals’ expectations in relation to them, or any change in events, conditions or circumstances on which any such statement is based.

Certain statistical and other information included in this presentation is sourced from publicly available third-party sources and has not been independently verified.

Speciality Metals
International Limited

A Diversified Speciality Resources
Mining & Exploration Company