



Speciality Metals International Limited

ACN: 115 009 106 | ABN: 77 115 009 106
(ASX CODE: SEI)

Half Year Financial Report

31 DECEMBER 2019

CORPORATE DIRECTORY

DIRECTORS

Russell H. Krause	Executive Chairman
Oliver Kleinhempel	Non-executive Director (Appointed 12 August 2019)
Stephen Layton	Non-executive Director
Zhui Pei Yeo	Non-executive Director (Appointed 12 August 2019)

COMPANY SECRETARY

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BANKERS

Commonwealth Bank of Australia

STOCK EXCHANGE LISTING

Listed on the Australian Securities Exchange (ASX)

ASX Code: SEI

ACN: 115 009 106

ABN: 77 115 009 106

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Your Directors submit their Report for the half year ended 31 December 2019.

DIRECTORS

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

Russell H. Krause	Executive Chairman
Roland W. Nice	Non-executive Director (Resigned 12 August 2019)
Stephen Layton	Non-executive Director
Zhei Pei Yeo	Non-executive Director (Appointed 12 August 2019)
Oliver Kleinhempel	Non-executive Director (Appointed 12 August 2019)

REVIEW & RESULTS OF OPERATIONS

The net result of operations after applicable income tax expense for the half year ended 31 December 2019 was a loss of \$1,204,167 (2018 Half Year Loss - \$749,339).

REVIEW OF OPERATIONS

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

FINANCIAL

The Company's cash position as at 31 December 2019 was \$908,414 (30 June 2019: \$217,962).

SUBSEQUENT EVENTS

No event has occurred subsequent to 31 December 2019 requiring disclosure in, or amendment to, these financial statements apart from:

- On 31 January 2020 the Company announced that the on-site team at Mt Carbine were working to debottleneck individual equipment and increase throughput through the newly refurbished Mt Carbine Retreatment Plant. Additional staff were scheduled to commence on 28 January 2020 to boost current staff levels to enable production to move to a 24-hour, 7 day a week, basis during the month of February 2020.
- On 28 February 2020 the Company was placed into a trading halt followed by a voluntary suspension which was lifted on 6 March 2020 as a result of the Company announcing that it had successfully raised \$4,500,000 via the placement of 125,000,000 fully paid ordinary shares at a price of 3.6 cents per share. The funds raised will accelerate the further development of the existing Retreatment Plant and to improve the necessary infrastructure to support the X-Ray Ore Sorter installation.

INDEPENDENCE DECLARATION

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

Signed at Melbourne this 11th day of March 2020 in accordance with a resolution of Directors.



R H Krause
Executive Chairman

The second half of 2019 saw Speciality Metals International Limited (ASX: SEI, "the Company" or "Speciality Metals") achieve a significant milestone in realising its plan of becoming a pre-eminent tungsten producer from its world-class Mt Carbine Tungsten Project, with commissioning of the newly refurbished Mt Carbine Retreatment Plant commencing during December 2019.

This was coupled with the Company's wholly owned subsidiary, Mt Carbine Quarrying Operations Pty Ltd, taking over the operations of the Mt Carbine Quarry, in its own right, as from 1 July 2019 following the 100% acquisition of Mt Carbine Quarries Pty Ltd (an entity that owned and operated the Mt Carbine Quarry and holds Mining Leases ML 4919 and ML 4867) on 28 June 2019.

The Board welcomes the opportunity to partner with one of the world's leading mining and raw material supply companies in realising the full value of the Mt Carbine Tungsten Project and would also like to thank the on-site construction and commissioning team on their achievements to date.

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

DEVELOPMENT & EXPLORATION ACTIVITIES

MT CARBINE QUARRY

Speciality Metals was pleased to announce on 2 July 2019 that it had completed the 100% acquisition of Mt Carbine Quarries Pty Ltd, an entity that owned and operated the Mt Carbine quarry and holds Mining Leases ML 4867 and ML 4919. The Company's wholly owned subsidiary, Mt Carbine Quarrying Operations Pty Ltd, commenced operating the quarry as from 1 July 2019 with the handover transitioning smoothly from both an operational and customer perspective.

The Mt Carbine Quarry is a fully permitted and established business which has operated within the Mt Carbine Mining leases for over 20 years. It has significant growth potential and the synergies between the quarry and the Company's future mining activities with respect to waste management are invaluable. This is significant from an environmental perspective as there will be no waste material generated from the Company's mining activities, as all treated mining material will become quarry feed stock for on-sale to its customer base. The Mt Carbine Quarry is also the largest and most northern hard rock quarry in Queensland.

For the half year ended 31 December 2019 the quarry has operated profitably and is well positioned to make a solid contribution to the Group's consolidated revenue. Tenders for several major projects have also been submitted, some of which are expected to be awarded in first quarter of 2020.

Significant upgrades/maintenance have also been undertaken since acquiring the quarry on its plant and equipment, workplace health and safety, account and management systems. Whilst these programs created additional operational expenses initially, the Company believes this investment will generate increased efficiency and less down time, due to equipment failure, thereby resulting in increased profitability into the future.

UNINCORPORATED JOINT VENTURE & MT CARBINE RETREATMENT PLANT REFURBISHMENT

The unincorporated joint venture ("JV") with Cronimet Asia Pte Ltd ("Cronimet") commenced following the successful completion of the acquisition of Mt Carbine Quarries Pty Ltd and the associated Mining Leases. A four-person JV Management Committee has been established to oversee the refurbishment of the existing Mt Carbine Retreatment Plant in conjunction with various engineers and technical personnel from Cronimet, Speciality Metals and selected external parties.

The refurbished Retreatment Plant incorporates new equipment consisting of a Feed Hopper and Grasshopper Conveyors, Jig, Wet Screen, Rolls Crusher, VSD, along with prefabricated steel framework supports and various pumping, pipework and electrical infrastructure upgrades.

Commissioning of the newly refurbished Plant commenced during December 2019 (refer ASX Announcements "Mt Carbine Update – Wet Commissioning Completed dated 3 December 2019; "Electrical Commissioning Completed on Mt Carbine Project" dated 17 December 2019; and "Cold Commissioning Completed at the Mt Carbine Plant" dated 23 December 2019). Two additional pieces of equipment, being a Rolls Crusher and a Wet Screen will be added to the circuit to further enhance production and recovery during the first quarter of 2020.

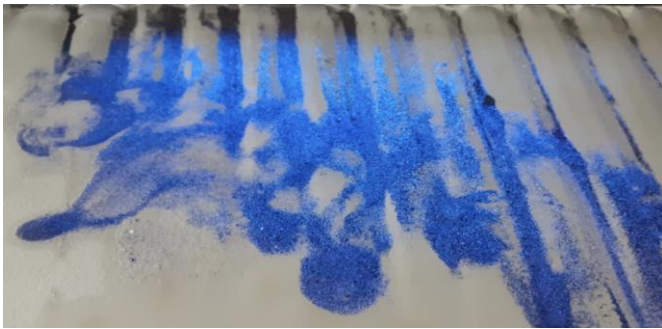
Production staff who hold either trade qualifications or mining/processing experience have been recruited from the local region and commenced employment on 28 January 2020. The Plant Operations Manager role has also attracted a number of senior managers with the recruitment process expected to be finalised in the first quarter of the 2020.

On-site staff have been working throughout January 2020 to optimise processes to achieve longer sustained production throughput at increasing plant feed rates and it is intended that production will move to a 24-hour, 7 day a week, basis during the month of February 2020.



View of the Retreatment Plant (raw material intake at front right; screening, crushing and jigging at centre front; gravity circuit under shed).

The on-site laboratory is also in the process of being set-up and will include a X-ray Fluorescence ("XRF") Analyser, to assist in the continuous optimisation of the processing plant and the production of consistent, commercial concentrate.



Commissioning sample under UV light (confirming assumption on high scheelite recovery from tailings stockpile).

MT CARBINE EXPLORATION

Whilst the focus has primarily been on corporate and Retreatment Plant upgrades, exploration and tenement administration work has been ongoing.

The Company's Geological Team have reviewed historical maps of the area within, and immediately adjacent to, the Mt Carbine Mining Leases. These areas have been remapped and all available geological data has been updated. The Geological Team is also reviewing the historical drill core samples and re-assaying selected drill core to gain a better understanding of the extent of the scheelite mineralisation zones within the deposit. The entire drill core library is also being reviewed, catalogued and transferred to new premises at the Mt Carbine mine site with this work scheduled for completion during the first quarter of 2020. This work will be invaluable in informing the Company's medium- and long-term strategic decisions pertaining to the Mt Carbine Mining Leases and EPMS. Final reports are expected within the coming months.

In relation to the Mt Carbine EPMS, additional subblocks have been applied for adjoining the existing tenements and the Company is currently reviewing its tenure consolidation strategy and is in discussions with the Department regarding this. This process is well underway, and the first phase review should be completed during the first half of 2020.

GOLD

CROW MOUNTAIN (NSW EL 6648)

Crow Mountain (EL 6648) covers part of the Great Serpentine Belt in western New England province of north eastern NSW. The dominate geological structure is the north-south trending Peel Fault which has hosted numerous shallow gold workings dating from the 1860's.

Discussions are ongoing amongst the Company's Geological Team as to the best way to advance this project. Whilst the Company's previously announced trenching program remains in the permitting phase there are other options being considered.

PANAMA HAT (NSW EL 8024)

The Company holds 100% of EL 8024, Panama Hat, located 20km south east of Broken Hill in NSW. EL 8024 covers approximately 80% of the historical gold workings in the Broken Hill district. The Company's previous mapping and sampling program had identified rock chip samples of bonanza grade up to 83 g/t gold. This target, whilst drill ready and permitted, is not sufficiently geologically understood to proceed with a drilling campaign.

During late November and early December 2019, the Company's Geological Team were on the ground at Panama Hat undertaking extensive sampling.

Their time was disrupted due to a large dust storm in the area however a significant number of samples have been collected and are currently being reviewed and assessed. The Team will make further recommendations as to how best to progress and value-add this project.

DEVELOPMENT & EXPLORATION ACTIVITIES

CHILE

As announced in the December 2019 Quarterly Activities Report, the current geo-political climate in Chile has led the Board to conclude not to pursue any further exploration activities within its Chilean Exploration Concessions. Exit options, such as the potential sale or liquidation of the Chilean Company, are being reviewed.

Prior to this decision being made, the Company's Chilean consultants held meetings with the following authorities to discuss its Tamarugal Basin Project within the Tarapaca Region: Regional Environmental Ministry; Regional Ministry of Mines; General Water Bureau; National Forest Corporation; Environmental Evaluation Agency and the National Mining and Geological Service. Meetings have also been held with local politicians such as the Governor of the Tarapaca Region and the Mayor of the town of Pozo Almonte. The purpose of these meetings was to increase their awareness of the regional significance of the Company's project and its potential economic impact on the region.

A letter of relevance was also lodged with the Environmental Evaluation Agency of the Tarapaca Region to request a pronouncement from the authority declaring it unnecessary to submit the exploration project in the Pinta and Bellavista mining concessions for assessment through the Environmental Impact System prior to executing exploration activities such as drilling. This process has resulted in the Company being granted permission to drill exploration wells within these exploration concessions.

Speciality Metals also signed a collaboration alliance between its in-country consultants and Santo Tomas University which saw a significant amount of work undertaken by the University at very limited cost to Speciality Metals. The quality of the work was excellent, and a number of exciting targets have been identified both within the Company's exploration concessions and in the region generally.

CORPORATE

NON-RENOUNCEABLE ENTITLEMENTS OFFER COMPLETED

On 2 July 2019 Speciality Metals' announced that it would be undertaking a pro-rata non-renounceable shareholder entitlement offer (Offer) to raise up to approximately \$2.9 million under which all eligible shareholders would be entitled to 1 new share for every 5 existing shares held in the Company at 0.018 cents per share. The offer was fully underwritten by Rymill Global Ventures Ltd.

The Offer closed on Tuesday 23 July 2019 with the below results:

EVENT	NO OF SHARES	APPLICABLE FUNDS
Shares on issue before the Offer	798,107,881	
Total shares applied for under the Offer	112,733,514	\$2,029,203
Shortfall shares remaining after close of the Offer	46,888,236	\$843,988

All shares applied for by shareholders under the Offer were issued on Tuesday 30 July 2019.

As the Offer was fully underwritten by Rymill Global Ventures Ltd, the shares not subscribed for by shareholders under the Offer (Shortfall Shares) were subscribed for by Rymill Global Ventures with all Shortfall Shares issued on 2 August 2019.

The 25,000,000 Performance Rights granted to Directors at the General Meeting on 22 June 2018 were also issued to Directors on 2 August 2019 due to the vesting condition relating to the purchase of Mt Carbine Quarries Pty Ltd being met.

CHANGE OF DIRECTORS

As announced on 12 August 2019 the following Director appointments were made subsequent to the Acquisition of Mt Carbine Quarries Pty Ltd.

Mr Oliver Kleinhempel – Non-Executive Director

Mr Kleinhempel is a representative of Cronimet and started his career at Outotec, a leading Minerals & Metals Processing Technology Company, where he spent several years in Europe, South America and Southeast Asia on various assignments. In the recent 8 years Mr Kleinhempel held various Executive Management positions in the project development, finance and commodity trading sector, with a regional focus on Asia-Pacific.

Mr Kleinhempel holds a Bachelor's Degree in Business Administration from the Cooperative State University Baden-Wuerttemberg (Germany) and obtained a Master's Degree from the Mining Institute of the Clausthal University of Technology (Germany).

Mr Kleinhempel is also a Managing Director of CRONIMET Holding GmbH.

Mr Yeo Zhui Pei – Non-Executive Director

In 2012, Mr Yeo graduated with first class honours from the Imperial College London in Electrical and Electronic Engineering. Since then, Mr Yeo has been working at a leading system integrator in the telecommunications industry in South-East Asia. Over the years, he has taken on executive, management and supervisory roles. This has allowed him to gain a wide range of experience from project planning to resource management to commercial negotiations. Mr Yeo is also a Director of a steel-product manufacturer.

As part of the Board changes, Mr Roland Nice resigned as a Director. Mr Nice has provided 6 years of valuable service to the Company in his role as Director. The Company greatly appreciates his contribution to date and will remain as an active consultant moving forward.

JOINT VENTURE MANAGEMENT COMMITTEE

As previously mentioned, the JV Management Committee has been established comprising of two members each from Cronimet and Speciality Metals. The charter of the JV Management Committee is to decide on all matters relating to the conduct of the Joint Venture activities, such as establishing policies, the acquisition of goods and services, allocation of contracts, etc, and to ensure the successful operation of the Mt Carbine Tailings and Stockpile Retreatment Projects. The first meeting of the Committee was held during the quarter at which the schedule of future meetings was agreed upon.

FULL YEAR STATUTORY ACCOUNTS

The full year audit was finalised during the September 2019 quarter with the Company releasing its Full Year Statutory Accounts on 16 October 2019.

IT & SYSTEM UPGRADE – MT CARBINE

All administrative functions have been relocated to the Mt Carbine site and to accommodate the additional staff and the sites increased information/data sharing requirements the existing IT system has been replaced with the latest hardware and software to enable connectivity across the site and its various operations.

CAPITAL RAISING SUCCESSFULLY COMPLETED

On 6 March 2020 the Company announced that it had raised \$4,500,000 (with oversubscriptions) via the placement of 125,000,000 fully paid ordinary shares at a price of 3.6 cents per share (last trade price 3.5 cents per share). The placement was pursuant to its placement capacity under Listing Rule 7.1 (15% Rule).

The funds raised from the placement will accelerate the further development of the existing Retreatment Plant and to improve the necessary infrastructure to support the X-Ray Ore Sorter installation. It is anticipated that the X-ray Ore Sorter will have a significant impact on the ability to process the material from the 12 million tonne stockpile.

The Company expects the X-Ray Ore Sorter will be able to improve its overall cost competitiveness by reducing the amount of non-mineralised rock to be processed through the plant and is expected to significantly increase the grade of the feed material being processed. The objective is to enable the Company to become one of the most cost competitive tungsten producers in the world.

In addition, funds will be allocated to advance development activities around the Open Pit and the underground resource (subject to relevant permitting), in particular commencing studies related to 2 high-grade ore zones beneath the Open Pit.

It is the Company's intention to thoroughly review the historical geological records and commence its own validation work from both an geological and engineering perspective.

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.

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

I declare that, to the best of my knowledge and belief, during the half-year ended 31 December 2019 there have been:

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



Nexia Melbourne Audit Pty Ltd
Melbourne



Geoff S. Parker
Director

Dated this 11 day of MARCH 2020

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

Half-year ended 31 December 2019

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	Note	31 Dec 2019 \$	31 Dec 2018 \$
Revenue	2	463,545	-
Other Income	2	16,350	15,522
Administration expenses		(249,340)	(131,974)
Consultant expenses		(167,325)	(160,700)
Depreciation expense		(80,897)	(871)
Development and testwork costs		(157,815)	(51,604)
Exploration expenditure		(3,196)	(172,111)
Foreign exchange loss		(23,300)	-
Impairment expense	6	(140,855)	-
Occupancy expenses		(17,893)	(17,422)
Other expenses		(69,560)	(37,973)
Production expenses		(309,774)	-
Salaries and employee benefits expense		(464,623)	(187,824)
(LOSS) BEFORE INCOME TAX EXPENSE		(1,204,683)	(749,339)
Income tax expense		-	-
NET (LOSS) FOR THE HALF YEAR ATTRIBUTABLE TO MEMBERS OF THE PARENT ENTITY		(1,204,683)	(744,957)
Other comprehensive income/(loss)			
Gain/(loss) on revaluation of financial assets		516	(4,382)
TOTAL COMPREHENSIVE INCOME/(LOSS) FOR THE HALF YEAR ATTRIBUTABLE TO MEMBERS OF THE PARENT ENTITY		(1,204,167)	(749,339)
Basic (loss) per share (cents)		(0.13)	(0.14)
Diluted (loss) per share (cents)		(0.13)	(0.14)

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2019

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	Note	31 Dec 2019 \$	30 Jun 2019 \$
CURRENT ASSETS			
Cash and cash equivalents		908,414	217,962
Trade and other receivables	3	108,890	190,622
Prepayments		243,351	75,212
Inventories	4	7,545,413	7,545,413
TOTAL CURRENT ASSETS		8,806,068	8,029,209
NON-CURRENT ASSETS			
Plant and equipment		936,234	331,674
Right to use assets	9	31,652	-
Financial assets	5	1,805	1,289
Deferred exploration and evaluation expenditure	6	6,839,441	6,834,416
Receivables	7	1,086,247	770,021
TOTAL NON-CURRENT ASSETS		8,895,379	7,937,400
TOTAL ASSETS		17,701,447	15,966,609
CURRENT LIABILITIES			
Payables		673,210	780,155
Employee benefits	8	20,065	26,473
Lease liability	9	9,411	-
Short term borrowings		-	200,000
TOTAL CURRENT LIABILITIES		702,686	1,006,628
NON-CURRENT LIABILITIES			
Employee benefits	8	35,934	8,890
Lease liability	9	17,620	-
Prepaid Mt Carbine sublease rent		1,911,911	1,911,911
Offtake advance loan		2,501,713	2,134,140
TOTAL NON-CURRENT LIABILITIES		4,467,178	4,054,941
TOTAL LIABILITIES		5,169,864	5,061,569
NET ASSETS		12,531,583	10,905,040
EQUITY			
Issued capital	9	10,806,891	7,651,079
Share-based payments reserve		-	330,000
Retained Earnings		1,724,692	2,923,961
TOTAL EQUITY		12,531,583	10,905,040

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

Half-year ended 31 December 2019

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	31 Dec 2019	31 Dec 2018
	\$	\$
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from customers	424,239	-
Payment to suppliers and employees	(1,961,429)	(829,345)
Interest received	6,651	13,943
Interest and other costs of finance paid	(23,242)	-
NET CASH FLOWS (USED IN) OPERATING ACTIVITIES	<u>(1,553,781)</u>	<u>(815,402)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Payments for the purchase of plant and equipment	(665,832)	(2,635)
Payments for the purchase of tenements	(2,000)	(500)
Release of refundable security deposit	-	670,000
NET CASH FLOWS FROM (USED IN) INVESTING ACTIVITIES	<u>(667,832)</u>	<u>666,865</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from issue of shares	3,003,242	-
Transaction costs related to issues of shares	(272,348)	-
Proceeds from borrowings	29,420	-
Repayment of borrowings	(202,389)	-
Transaction costs related to borrowings	(446)	-
Offtake and working advances	348,228	-
NET CASH FLOWS FROM (USED IN) FINANCING ACTIVITIES	<u>2,905,707</u>	<u>-</u>
NET INCREASE (DECREASE) IN CASH HELD	684,094	(148,537)
Add opening cash brought forward	217,962	602,675
Effect of movement in exchange rates on cash held	6,358	-
CLOSING CASH CARRIED FORWARD	<u><u>908,414</u></u>	<u><u>454,138</u></u>

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Half-year ended 31 December 2019

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CONSOLIDATED	Attributable to shareholders of Speciality Metals International Ltd			
	Issued Capital \$	Retained Earnings \$	Reserves \$	Total Equity \$
AT 1 JULY 2018	3,553,567	(1,318,746)	437,615	2,672,436
(Loss) for the period	-	(749,339)	-	(749,339)
Other comprehensive income	-	-	-	-
Total comprehensive (loss)	-	(749,339)	-	(749,339)
Transactions with owners in their capacity as owners:				
Reduction of Reserve following prior period lapse of Options	-	433,844	(433,844)	-
Performance rights expense	-	-	82,904	82,904
Total transactions with owners in their capacity as owners	-	433,844	(350,940)	82,904
AT 31 DECEMBER 2018	3,553,567	(1,634,241)	86,675	2,006,001
AT 1 JULY 2019	7,651,079	2,923,961	330,000	10,905,040
Profit / (loss) for the period	-	(1,204,683)	-	(1,204,683)
Prior year adjustment	-	4,898	-	4,898
Other comprehensive income	-	516	-	516
Total comprehensive (loss)	-	(1,199,269)	-	(1,199,269)
Transactions with owners in their capacity as owners:				
Issue of share capital	3,203,242	-	-	3,203,242
Share issue costs	(92,430)	-	-	(92,430)
Share based payments	45,000	-	-	45,000
Performance rights issued	-	-	(330,000)	(330,000)
Total transactions with owners in their capacity as owners	3,155,812	-	(330,000)	2,825,812
AT 31 DECEMBER 2019	10,806,891	1,724,692	-	12,531,583

1. BASIS OF PREPARATION OF THE HALFYEAR FINANCIAL REPORT

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

The Half Year Financial Report should be read in conjunction with the Annual Financial Report of Speciality Metals International Limited as at 30 June 2019.

It is also recommended that the Half Year Financial Report be considered together with any public announcements made by Speciality Metals International Limited during the half year ended 31 December 2019 in accordance with the continuous disclosure obligations arising under the Corporations Act 2001.

(a) Going Concern Basis for Preparation of Financial Statements

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

As disclosed in the financial statements, the Consolidated Entity incurred a net loss of \$1,204,167 and net operating cash outflows of \$1,553,781 for the period ended 31 December 2019. As at 31 December 2019 the Consolidated Entity had cash reserves of \$908,414.

The ability of the Company to continue to adopt the going concern assumption is based upon:

- the Company now having a source of income from its recent acquisition of the Mt Carbine Quarry along with that from the Company's joint venture with Cronimet Asia Pte Ltd for the development of the Mt Carbine Tailings Retreatment and Stockpile Projects; and
- the raising of \$4,500,000 on 6 March 2020 from the issue of 125,000,000 fully paid ordinary shares at a price of 3.6 cents per share.

Should additional funds be necessary the Directors are confident of securing these 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) Statement of Compliance

These interim financial statements for the half year reporting period ended 31 December 2019 have been prepared in accordance with Australian Accounting Standard 134 Interim Financial Reporting and the Corporations Act 2001.

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

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

(c) Significant Accounting Policies

The accounting policies and methods of computation adopted in the preparation of the half-year financial report are consistent with those adopted and disclosed in the Company's 2019 annual financial report for the financial year ended 30 June 2019, except for the accounting policy on leases described below which has changed as a result of the adoption of AASB 16 Leases. The accounting policies are consistent with Australian Accounting Standard and with International Financial Reporting Standards.

Leases

The Group as lessee

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

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

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

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

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

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

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

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

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

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

The right-of-use assets are presented as a separate line in the consolidated statement of financial position.

The Group applies AASB 136 to determine whether a right-of-use asset is impaired and accounts for any identified impairment loss as described in the "Property, Plant and Equipment" policy (as outlined in the financial report for the annual reporting period).

Variable rents that do not depend on an index or rate are not included in the measurement of the lease liability and the right-of-use asset. The related payments are recognised as an expense in the period in which the event or condition that triggers those payments occurs and are included in the line "Other Expenses" in profit or loss.

As a practical expedient, AASB 16 permits a lessee not to separate non-lease components, and instead account for any lease and associated non-lease components as a single arrangement.

2. REVENUE & OTHER INCOME

	31 December 2019	31 December 2018
Revenue	\$	\$
Sales to customers	463,545	-
	463,545	-
Other Income		
Interest received	5,518	13,404
Diesel fuel rebates	10,832	2,119
	16,350	15,522

3. TRADE AND OTHER RECEIVABLES

	31 December 2019	30 June 2019
	\$	\$
Trade debtors	79,555	-
Interest receivable	1,605	2,737
GST receivable	27,730	57,885
Other receivable	-	130,000
	108,890	190,622

4. INVENTORY

	31 December 2019	30 June 2019
	\$	\$
Inventory (Mt Carbine Quarry)	7,545,413	7,545,413
	7,545,413	7,545,413

5. FINANCIAL ASSETS

	31 December 2019	30 June 2019
	\$	\$
Non-current:		
Shares in listed companies:		
Force Commodities Limited ¹	1,805	1,289
	1,805	1,289

¹ Formerly Sovereign Gold Company Ltd

6. DEFERRED EXPLORATION AND EVALUATION EXPENDITURE

	31 December 2019	30 June 2019
	\$	\$
Costs brought forward	6,834,416	596,066
Costs incurred during the period	150,959	347,919
Costs recognised upon acquisition of MCQ on 28 June 2019	(5,079)	255,100
Exploration and evaluation expenditure written down	(140,855)	-
Impairment reversal ¹	-	5,635,331
Costs carried forward	<u>6,839,441</u>	<u>6,834,416</u>

Exploration expenditure costs carried forward are made up of:

Expenditure on joint venture areas	-	-
Expenditure on non-joint venture areas	<u>6,839,441</u>	<u>6,834,416</u>
Costs carried forward	<u>6,839,441</u>	<u>6,834,416</u>

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

¹ As at 30 June 2019 the Directors determined that the 2017 impairment of the capitalised exploration and evaluation expenditure associated with the Mt Carbine Tungsten Project be reversed in full as a result of the Company successfully completing the 100% acquisition of Mt Carbine Quarries Pty Ltd on 28 June 2019 and its newly formed unincorporated joint venture with Cronimet Asia Pte Ltd

The basis for this decision is that via the Company's 100% acquisition of Mt Carbine Quarries Pty Ltd it has removed the previous uncertainty surrounding the unresolved sublease issues with the Quarry and Mining Leaseholder thus removing any adverse impact on the technical feasibility and commercial viability of the Mt Carbine Tungsten Project.

7. RECEIVABLES (NON-CURRENT)

	31 December 2019	30 June 2019
	\$	\$
Tenement security deposits	1,083,397	769,921
Other security deposits	2,850	100
	<u>1,086,247</u>	<u>770,021</u>

8. EMPLOYEE BENEFITS

	31 December 2019	30 June 2019
	\$	\$
Current		
Annual leave provision	<u>20,065</u>	<u>26,473</u>
	<u>20,065</u>	<u>23,473</u>
Non-Current		
Long service leave and annual leave provision	<u>35,934</u>	<u>8,890</u>
	<u>35,934</u>	<u>8,890</u>

NOTES TO THE HALF YEAR FINANCIAL STATEMENTS

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9. EQUIPMENT LEASES

	31 December 2019	30 June 2019
Right-of-use assets	\$	\$
Balance at 1 July 2019	-	-
Motor vehicles	32,848	-
Depreciation charge for the year	(1,196)	-
Balance at 31 December 2019	31,652	-
Lease Liability - Maturity Analysis		
Less than 1 year	9,411	-
1 to 5 years	17,620	-
5+ years	-	-
	27,031	-
Amounts Recognised in profit or loss		
Interest on lease liabilities	241	-
Expenses relating to short-term leases	406	-
	647	-
Amounts recognised in statement of cash flows		
Total cash outflow for leases	3,076	-

10. ISSUED CAPITAL

	31 December 2019	30 June 2019
Share capital	\$	\$
985,229,631 (30 June 2019: 798,107,881) ordinary shares	10,806,891	7,651,079
	10,806,891	7,651,079

(a) Movements in ordinary share capital	Issue Date	Number of shares	\$
1 July 2019 brought forward		798,107,881	7,651,079
Share Capital Recognition – Unincorporated JV	01-07-19	50	50
Non-renounceable Rights Issue	31-07-19	112,733,514	2,029,204
Non-renounceable Rights Issue - Shortfall	02-08-19	46,888,236	843,988
Performance Rights Share Issue	02-08-19	25,000,000	330,000
Shares Issued for Consultancy Fees	27-12-19	2,500,000	45,000
Share Issue Costs		-	(92,430)
Balance as at 31 December 2019		985,229,681	10,806,891

(b) Unlisted Options and Performance Rights	Issue Date	Number of Performance Rights	Vesting conditions	Maturity
Performance Rights				
1 July 2019 brought forward		25,000,000	**	22-06-20
Performance Rights Share Issue	02-08-19	(25,000,000)		
Balance as at 31 December 2019		<u>-</u>		

** The Performance Rights granted to Directors as an employment incentive following approval by shareholders at the General Meeting held on 22 June 2018 were converted to shares on 2 August 2019 due to the vesting condition relating to the completion of the acquisition of Mt Carbine Quarries Pty Ltd and associated mining leases being satisfied on 28 June 2019.

No options or performance rights were granted to Directors or key employees during the half year ended 31 December 2019. No options or performance rights lapsed during the reporting period without exercise.

11. CONTINGENT ASSETS AND LIABILITIES

The Group has provided sureties totaling \$1,086,247 in respect of mining tenements and environmental bonds. These guarantees in respect of mining tenements are secured against deposits with the relative State Department of Mines. The Company does not expect to incur any material liability in respect of the guarantees.

12. SEGMENT INFORMATION

During the half-year the Company operated principally in one business segment being mineral exploration, mining evaluation and development and in two (2) geographical segments being Australia and Chile. For the half-year to 31 December 2019, the Company started to earn revenue from the Australian segment however there were no assets recorded for the Chilean segment.

13. SUBSEQUENT EVENTS

No event has occurred subsequent to 31 December 2019 requiring disclosure in or amendment to, these financial statements, apart from:

- On 31 January 2020 the Company announced that the on-site team at Mt Carbine were working to debottleneck individual equipment and increase throughput through the newly refurbished Mt Carbine Retreatment Plant. Additional staff were scheduled to commence on 28 January 2020 to boost current staff levels to enable production to move to a 24-hour, 7 day a week, basis during the month of February 2020.
- On 28 February 2020 the Company was placed into a trading halt followed by a voluntary suspension which was lifted on 6 March 2020 as a result of the Company announcing that it had successfully raised \$4,500,000 via the placement of 125,000,000 fully paid ordinary shares at a price of 3.6 cents per share. The funds raised will accelerate the further development of the existing Retreatment Plant and to improve the necessary infrastructure to support the X-Ray Ore Sorter installation.

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

In the opinion of the Directors:

- a) the financial statements and notes of the Company:
 - i) give a true and fair view of the Company's financial position as at 31 December 2019 and the performance for the half-year ended on that date; and
 - ii) comply with Accounting Standard AASB 134 "Interim Financial Reporting" and the Corporations Regulations 2001; and
- b) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

On behalf of the Board



R H KRAUSE

Executive Chairman

Melbourne, 11th March 2020

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

Report on the Half-Year Financial Report

We have reviewed the accompanying half-year financial report of Speciality Metals International Limited, which comprises the condensed consolidated statement of financial position as at 31 December 2019, the condensed consolidated statement of profit or loss and other comprehensive income, condensed consolidated statement of changes in equity and condensed consolidated statement of cash flows for the half-year ended on that date, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration.

Directors' Responsibility for the Half-Year Financial Report

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

Auditor's Responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the consolidated entity's financial position as at 31 December 2019 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134: *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of Speciality Metals International Limited, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

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

Independence

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

Conclusion

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

- a. giving a true and fair view of the consolidated entity's financial position as at 31 December 2019 and of its performance for the half-year ended on that date; and
- b. complying with Accounting Standard AASB 134 *Interim Financial Reporting* and *Corporations Regulations 2001*.


Nexia Melbourne Audit Pty Ltd
Melbourne


Geoff S. Parker
Director

Dated this 11 day of MARCH 2020



SPECIALITY METALS INTERNATIONAL LIMITED

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