

ATC ALLOYS LIMITED

AND ITS CONTROLLED ENTITIES

HALF YEAR REPORT

31 DECEMBER 2018

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Corporate Information

ACN 118 738 999

ASX Code: ATA

Directors

Mr Imants Kins (Non-Executive Chairman)
Mr Nathan Featherby (Non-Executive Director)
Mr Saxon Ball (Non-Executive Director)
Mr John Chegwidden (Non-Executive Director) – appointed 11 September 2018
Mr Chen (George) Guangyu (Non-Executive Director) – appointed 11 September 2018

Company Secretary

Mr Trent Franklin – resigned 18 April 2019
Mr John Chegwidden – appointed 18 April 2019

Registered Office

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Email: atcalloys101@gmail.com

Share Registry

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Level 11, 172 St George's Terrace
Perth WA 6000

Telephone (Australia): 1300 850 505
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Auditors

Criterion Audit Pty Ltd
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Subiaco WA 6008

Website

www.atcalloys.com

Directors' Report

The directors of ATC Alloys Ltd (**ATC** or **Company**) submit the financial report of the Consolidated Entity for the half-year ended 31 December 2018. The Consolidated Entity comprises ATC Alloys Ltd and BigHill Resources Limited. The consolidated financial report has continued to deconsolidate Asia Tungsten Products Co. Limited (**ATCHK**) and ATCHK's subsidiary Asia Tungsten Products Vietnam Limited (**ATCVN**) as at 31 December 2018.

Directors

The names of the directors of the Company during or since the end of the half year are:

- Mr Imants Kins (Non-Executive Chairman)
- Mr Nathan Featherby (Executive Director)
- Mr Saxon Ball (Non-Executive Director)
- Mr John Chegwiddden (Non-Executive Director) – appointed 11 September 2018
- Mr Chen (George) Guangyu (Non-Executive Director) – appointed 11 September 2018

Principal Activities

The principal activity of the Consolidated Entity has been involvement in the production of ferrotungsten in Vietnam through an incorporated Joint Venture. As advised during the previous financial year the Company made the decision to suspend production runs conducted by the Joint Venture. This arose from a dispute over the management of the plant and operation of the Joint Venture.

The dispute has now been resolved satisfactorily through negotiation and goodwill by both parties. A review of the activities has required the directors to assess whether they had control of ATCHK and/or ATCVN for accounting purposes during this half year. After careful analysis it was deemed that for accounting purposes, the Company still cannot demonstrate control of either ATCHK or ATCVN for this half financial year. Therefore, a decision was made to continue to report on a deconsolidated method for those two subsidiaries. The Company still holds 60%, the net fair value of those subsidiaries, but on deconsolidation recognised this holding as having nil value at balance date and on the date of signing this half yearly report.

Currently, the Company is in the process of regaining control for accounting purposes and unlocking the potential value that still remains with the Company's 60% shareholding underpinned by the Vietnam plant value in those subsidiaries by negotiating to purchase the 40% holding of the Joint venture partner and on 11 September 2018 added George Chen onto the Company board to allow the operations to run harmoniously.

Change of management

The Company underwent a number of changes of management during the 2018 financial year, including the appointment of Mr Imants Kins as a director and chairman of the Company, Mr Pat Burke resigning as director and chairman of the Company and Mr Nicholas Halliday resigning as director of the Company. Subsequent to the end of the 2018 financial year, two new directors were appointed, Mr John Chegwiddden and Mr Chen (George) Guangyu, and Mr Trent Franklin resigned as the Company Secretary and Mr John Chegwiddden was appointed the Company Secretary.

Almonty Promissory Notes

On 1 August 2016, Almonty provided \$150,000 to the Company in short term loans repayable on the earlier of 12 months from the date of provision of the funds or the date which the Company and Almonty complete a business combination. On 23 August 2016, a further \$250,000 was provided to the Company on the same terms as the original \$150,000. Interest is accrued at the rate of 5% per annum. The balance of the loan at 30 June 2018 was \$400,000. As at the date of signing this half year report, the amount outstanding is \$560,000. The debt has been guaranteed by related party and Non-Executive Director Mr Featherby, and recently a third party and shareholder has agreed to

Directors' Report Continued

paydown the outstanding debt in instalments. The third party has agreed to convert the funds provided as part loan and part equity.

Convertible Note and Unsecured Loans

The Company has \$4.13 million in Convertible notes. The Company has in the past converted the interest outstanding on the Convertible notes into equity at an agreed share prices, the last conversion to equity took place on 16 January 2017. No interest has been converted to equity since that date. The interest outstanding will be part of a settlement with the note holders on their conversion of both their notes and outstanding interest to equity at a future date. The Company during the period received signed letters of support for the possible conversion. The Convertible notes lapsed in July 2018, and any note holder is entitled to request repayment of their note. The Secured Convertible Notes rank second to the Secured debt facility.

Siderian Resource Capital Limited - Outstanding Loan

The Company has a Secured Loan with Siderian of approximately US\$2.3 million. The Company and Siderian have engaged in continuing ongoing negotiations, and Siderian is presently supporting a settlement and resolution for the payment of the debt that is mutually beneficially to both parties. The debt is still the highest-ranking security and there continues to be Siderian's right to enforce action against the Company for the repayment of their outstanding debt. The Company continues to bring to account any interest payable and administration/legal fees owing to Siderian.

Joint Venture

In the first half of the 2018 financial year and as announced to the market, the Company has employed alternative strategies for the resolution of the dispute with Mr Chen, including taking various action to attempt to regain control of ATCHK and the Vietnamese ferrotungsten plant, including legal action in both Hong Kong and Vietnam. The Joint Venture did not operate during this first half of the financial year, and the ATC Ferrotungsten plant was idle. The Joint Venture partner provided the Company with assurances the ferrotungsten plant was well maintained during its idle time, and that the operating licence was in good standing. The Company did not receive any financial information and has not had any financial input to the Joint Venture during this period. The Company used a number of legal representatives to attempt to resolve the dispute with legal fees incurred being an extensive part of the Company's costs. In June 2018, on the appointment of the new Chairman Imants Kins the Company commenced a reconciliatory approach to settling the dispute, and this continued on during the half year period. As a result of the resolution of the dispute the legal representatives of Mr Chen on the 29 October 2018 filed a consent summons with the High Court of Hong Kong effectively discontinuing the proceedings in Hong Kong. The resolution of the dispute then allowed the appointment of Mr Chen to the board of the Company as a non-executive director on 11 September 2018 to make use of his extensive experience in the tungsten industry. Since his appointment, the Company and Mr Chen have worked closely to resolve any remaining issues of the Dispute and have also been addressing the best way to manage the Joint Venture moving forward and maintain transparency in the operations and management of the Ferrotungsten Plant in Vietnam. Mr John Chegwidan was also appointed as a Non-Executive Director on 11 September 2018, to work with the Company, joint venture party and with the Vietnam Operation.

Review and Results of Operations

The operating loss after tax for the half-year ended 31 December 2018 was \$1,272,156 (31 December 2017: \$945,379).

Directors' Report Continued

Subsequent Events

Subsequent to half-year end the following material subsequent events occurred.

Joint Venture

Once the previous dispute between the Company and the Joint Venture Partner had being amicably resolved this allowed the parties to run the Vietnam Ferrotungsten plant.

The Company, along with its 40% joint venture partner, Mr Chen (George) Guangyu, carried out a low risk contract processing run over May & June 2019 at the Plant to demonstrate the continuing good operating condition of the Plant and ensure that the Plant remains operational and well maintained. The plant operated in good condition. The company successfully contract processed in excess 200mt of tungsten concentrate to produce over 100mt of good quality ferrotungsten. The re-commencement of production at the world-class ferrotungsten plant, only one of two such operating plants in the world, will help kickstart unlocking the potential and unexploited value of the Company's asset. The Company will now look to further processing opportunities. The running of the plant proved the plant is in good running order, it also maintained the operating licence in good standing, it re-established good relations the local employees and businesses and protected the potential loss of the ownership of an important asset for the Company.

MOU With JV Partner

On the 9 July 2019 the Company announced that it has entered into a Memorandum of Understanding with its joint venture partner and non-executive director, Mr George (Guangyu) Chen to restructure the Vietnamese Ferro-Tungsten producing joint venture which is owned by the 60% owned ATCHK. The Company is working towards to buying out and merging in the Joint Venture Partner's 40% ownership into the Company to give the Company 100% ownership and align all parties going forward.

For more information refer to note 6, and the announcement on 9 July 2019.

Capital Raising

As at the date of this report, the Company is well advanced in preparations for a capital raising, intended to raise up to A\$2.8 million. The Company will be undertaking a non-renounceable rights issue at 1 cents, with a offer of 2 shares for each 1 share held.

The Company raised a further \$127,500 in convertible debt in August/September 2019 from Fern Street Partners.

Siderian facility

Continuing discussions are being held with Siderian, in relation to the repayment of the Company's debt. Under a further forbearance arrangement which is currently being finalised by the Company and Siderian, the parties have negotiated that Siderian will not issue any notice or exercise any of its rights to call on the Company's debt to it until the Company has had a chance to complete its proposed capital raising in late 2019.

Future Developments

Information on the likely developments in the operation of the Consolidated Entity and the expected results of those operations have not been included in this report because the Directors believe it would be likely to result in unreasonable prejudice to the Consolidated Entity.

As set out in this report, the Company remains in discussions and negotiations with Chen, essentially as to whether Chen should continue as the sole operator of ATCVN. There is no dispute

Directors' Report Continued

as to either ATC's 60% ownership or Mr Chen's 40% ownership of ATCHK or ATCHK's 100% ownership of ATCVN. Both the Company and Chen are working to an agreement on how to operate the Vietnam ferrotungsten for mutual benefit of both parties. Chen has joined the Company's board as part of this process. The Vietnam ferrotungsten plant has operated successfully recently carrying out some contract processing to show that the plant is still in good operating condition.

The Company is also still negotiating with Chen for the possible purchase of Chen's 40% share in the Joint Venture.

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 on page 8.

This Director's Report is signed in accordance with a resolution of the Directors.

A handwritten signature in black ink, appearing to read 'Imants Kins', is centered on the page. The signature is fluid and cursive.

Imants Kins
Chairman
12 September 2019

Criterion Audit Pty Ltd

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To The Board of Directors

Auditor's Independence Declaration under Section 307C of the Corporations Act 2001

As lead audit director for the review of the financial statements of ATC Alloys Limited and its controlled entities for the half year ended 31 December 2018, I declare that to the best of my knowledge and belief, there have been no contraventions of:

- the auditor independence requirements of the *Corporations Act 2001* in relation to the review; and
- any applicable code of professional conduct in relation to the review.

Yours faithfully



CHRIS WATTS ca
Director

CRITERION AUDIT PTY LTD

DATED at PERTH this 12th day of September 2019

Consolidated Statement of Profit or Loss and Other Comprehensive Income For The Half-Year Ended 31 December 2018

	31-Dec-18 \$	31-Dec-17 \$
Other Income		
Interest	-	854,340
Total revenue and other income	-	854,340
Administrative expenses	(119,189)	(100,711)
Auditor's remuneration	(10,000)	(10,000)
Consultancy fees	(400,000)	(150,000)
Depreciation	-	(579)
Directors' fees	(42,000)	(28,200)
Employee benefits expenses	-	3,026
Finance costs	(508,009)	(483,936)
Foreign exchange gains/(losses)	(134,588)	(312,141)
Impairment of investments	-	5,327
Provision for loan to related parties	-	(509,050)
Insurance	-	(60,059)
Investments Gain/Loss	-	(3,084)
Legal fees	(53,301)	(148,422)
Occupancy costs	(232)	(1,890)
Travel and marketing expense	(4,837)	-
Gain (Loss) before income tax expense	(1,272,156)	(945,379)
Income tax expense	-	-
Gain (Loss) for the year from continuing operations	(1,272,156)	(945,379)
Gain (Loss) for the year	(1,272,156)	(945,379)
Other comprehensive income		
Items that may be reclassified subsequently to profit and loss:		
Foreign currency translation difference	-	-
Total comprehensive income for the year	(1,272,156)	(945,379)
Gain (Loss) attributable to:		
Members of the parent entity	(1,272,156)	(945,379)
Non-controlling interest	-	-
	(1,272,156)	(945,379)
Total comprehensive income attributable to:		
Members of the parent entity	(1,272,156)	(945,379)
Non-controlling interest	-	-
	(1,272,156)	(945,379)
Loss per share		
Basic and diluted (cents per share)	(0.90)	(0.67)

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

Consolidated Statement of Financial Position As At 31 December 2018

	Note	31-Dec-18 \$	30-Jun-18 \$
Current assets			
Cash and cash equivalents		-	2,261
Trade and other receivables	3	15,545	18,701
Other assets		4,000	4,000
Total current assets		19,545	24,962
Non-current assets			
Property, plant and equipment		433	433
Investments		-	-
Total non-current assets		433	433
Total assets		19,978	25,395
Current liabilities			
Bank overdraft		951	-
Trade and other payables	4	3,407,813	2,457,100
Financial liabilities	5	8,343,620	7,961,021
Total current liabilities		11,752,384	10,418,121
Total liabilities		11,752,384	10,418,121
Net assets		(11,732,406)	(10,392,726)
Equity			
Issued capital		67,087,108	67,154,632
Reserves		30,600	30,600
Accumulated losses		(78,850,114)	(77,577,958)
Parent interest		(11,732,406)	(10,392,726)
Non-controlling interest		-	-
Total equity		(11,732,406)	(10,392,726)

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

Consolidated Statement of Changes in Equity For The Half-Year Ended 31 December 2018

	Members of parent entity			Attributable to owners of the parent	Non- controlling interest	Total Equity
	Issued Capital	Reserves	Accumulated Losses			
	\$	\$	\$	\$	\$	\$
Balance at 1 July 2017	67,154,632	30,600	(75,510,164)	(8,324,932)	-	(8,324,932)
Loss for the period	-	-	(945,379)	(945,379)	-	(945,379)
Other comprehensive income	-	-	-	-	-	-
Total comprehensive income for the period	-	-	(945,379)	(945,379)	-	(945,379)
Transactions with owner, directly recognised in equity						
Issues of shares	-	-	-	-	-	-
Expiry of options	-	-	-	-	-	-
Financial asset revaluation	-	-	-	-	-	-
Balance at 31 December 2017	67,154,632	30,600	(76,455,543)	(9,270,311)	-	(9,270,311)
Balance at 1 July 2018	67,154,632	30,600	(77,577,958)	(10,392,726)	-	(10,392,726)
Loss for the period	-	-	(1,272,156)	(1,272,156)	-	(1,272,156)
Other comprehensive income	-	-	-	-	-	-
Total comprehensive income for the period	-	-	(1,272,156)	(1,272,156)	-	(1,272,156)
Transactions with owner, directly recognised in equity						
Issues of shares	(67,524)	-	-	(67,524)	-	(67,524)
Expiry of options	-	-	-	-	-	-
Financial asset revaluation	-	-	-	-	-	-
Balance at 31 December 2018	67,087,108	30,600	78,850,114	(11,732,406)	-	(11,732,406)

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

Consolidated Statement of Cash Flow For The Half-Year Ended 31 December 2018

	31-Dec-18 \$	31-Dec-17 \$
Cash flows from operating activities		
Receipts from customers	-	-
Payments to suppliers and employees	(40,277)	(51,302)
Payments for deferred exploration expenditure	-	-
Interest and other income received	-	-
Net cash used in operating activities	(40,277)	(51,302)
Cash flows from investing activities		
Payment for property, plant and equipment	-	-
Proceeds from sale of asset	-	-
Proceeds from sale of investments	-	12,754
Net cash provided from investing activities	-	12,754
Cash flows from financing activities		
Proceeds from issues of equity securities	-	-
Payment for share issue costs	-	-
Proceeds from borrowings	219,273	51,600
Repayment of borrowings	(182,208)	(13,932)
Financing costs	-	-
Interest expense	-	(33)
Net cash provided by financing activities	37,065	37,635
Net decrease in cash and cash equivalents	(3,212)	(913)
Cash and cash equivalents at the beginning of the period	2,261	1,358
Effects of exchange rates changes on the balance of cash held in foreign currencies	-	-
Cash and cash equivalents at the end of the period	(951)	445

The above consolidated statement of cash flow should be read in conjunction with the attached notes.

Notes to the Consolidated Financial Statements For The Half-Year Ended 31 December 2017

1. Summary of accounting policies

a) Basis of preparation

These General Purpose consolidated interim financial statements for the half-year reporting period ended 31 December 2018 have been prepared in accordance with Accounting Standard AASB 134 Interim Financial Reporting and the Corporations Act 2001. Compliance with AASB 134 ensures compliance with International Financial Reporting Standard IAS 34 'Interim Financial Reporting'. The group is a for-profit entity for financial reporting purposes under Australian Accounting Standards.

This consolidated interim financial report does not include all the notes of the type normally included in an annual financial report. Accordingly, this report is to be read in conjunction with the annual report for the year ended 30 June 2018 and any public announcements made by ATC Alloys Limited during the interim reporting period in accordance with the continuous disclosure requirements of the Corporations Act 2001.

The accounting policies adopted are consistent with those of the previous financial year and corresponding interim reporting period.

b) Principle of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company (its subsidiaries) (referred to as 'the Consolidated Entity' in these financial statements). Control is achieved where the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. When control ceases with entities they are deconsolidated, from the date control ceases. The fair value of the investment remaining in the entity is recognised. Any gain or loss on deconsolidation is recognised in accordance with standards in the profit or loss or equity as required.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by other members of the Consolidated Entity. In preparing the consolidated financial statements, all inter-company balances and transactions between entities in the Consolidated Entity have been eliminated in full on consolidation.

Non-controlling interests, being the equity in a subsidiary not attributable, directly or indirectly, to a parent, are reported separately within the equity section of the consolidated balance sheet and statement of profit or loss and other comprehensive income. The non-controlling interests in the net assets comprise their interests at the date of the original business combination and their share of changes in equity since that date.

c) Going Concern

The accounts have been prepared on the going concern basis, which contemplates continuity of normal business activities and the realisation of assets and settlements of liabilities in the ordinary course of business. The Consolidated Entity incurred an operating loss of \$1,272,156 for the half-year ended 31 December 2018 (31 December 2017: loss of \$945,379,).

The net current liabilities of the Consolidated Entity at 31 December 2018 was \$11,732,839 (30 June 2018: \$10,393,159) and the net cash outflows from operating activities during the half-year was \$40,277 (31 December 2017: \$51,302).

The ability of the Consolidated Entity to continue to pay its debts as and when they fall due is dependent upon the Consolidated Entity settling the approximately US\$2,000,000 million Siderian loan, settling all outstanding loans and convertible notes and payment of trade creditors, and achieving one or more of the following objectives: raising additional share capital; developing, joint venturing or selling one or more of its non-core assets or other assets; and the successful production and sale of Ferrotungsten. These conditions indicate a material uncertainty that may cast doubt about the ability of the Consolidated Entity to continue as a going concern. The

Notes to the Consolidated Financial Statements For The Half-Year Ended 31 December 2018

1. Summary of accounting policies continued

c) Going Concern continued

Company has signed a mandate with Pulse Capital to be lead manager for the intending entitlement issue to raise up to \$2.8 million.

The directors have prepared a cash flow forecast, which indicates that the Consolidated Entity will have sufficient cash flows to meet all commitments and working capital requirements for the 12-month period from the date of signing this financial report. The Directors believe it is appropriate to prepare these accounts on a going concern basis because:

- The Company from September 2016 has ceased providing financial support to its 60% owned subsidiary ATCHK and its wholly owned subsidiary ATCVN and will only recommence financial support once the Company is in a strong enough financial position and arrangement with the subsidiaries are suitable.
- The Group has been extending the forbearance period with Siderian Resource Capital Limited, the Company's secured lender, and has extended the forbearance period under a revised repayment schedule until a proposed capital raising can be completed.
- This Company is proposing to raise additional funds via an entitlement issue offer, with the prospectus expected to be lodged with the ASX and ASIC to raise up to approximately A\$2.8 million at \$0.01 per share. The entitlement issue is proposed to be supported by Pulse Marketing.
- The Company has negotiated repayment terms with a number of creditors and statutory demands from its creditors.
- As at 30 December 2018 the entity have convertible notes with a face value of \$4.13 million outstanding. These notes can be converted into ordinary shares in ATC at fixed terms as disclosed in note 5.
- The Company is in the process of paying out Almonty Industries Inc. in relation to the promissory notes with total face value of \$400,000.
- The company is the process on issuing a Notice of Meeting for its Annual General Meeting that will include a resolution to raise up to \$2,817,829 through a non-renounceable entitlement issue at 1 cent per share. The Company is also seeking approval at this meeting to issue shares for the conversion of some of the Company's liabilities to equity, including \$4.13 million in convertible notes, \$2 million in Creditors and unsecured loans, and \$500,000 in Secured loans.
- The Company entered into a loan agreement for \$127,500 which is unsecured and convertible with the Fern Street capital partner. Funds were received in August and September 2019.

The Group has also resolved all legal matters in relation to the dispute with Chen and the Consolidated Entity intends to assess all options to maximize the value realisation for its shareholders.

Should the Consolidated Entity not achieve the matters set out above, there is material uncertainty whether it would continue as a going concern and therefore whether it would realise its assets and extinguish its liabilities in the normal course of business and at the amounts stated in the financial statements. The financial statements do not include any adjustment relating to the recoverability or classification of recorded asset amounts or to the amounts or classifications of liabilities that might be necessary should the Consolidated Entity not be able to continue as a going concern.

Notes to the Consolidated Financial Statements For The Half-Year Ended 31 December 2018

2. 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, 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 consistent with 30 June 2018.

The significant judgement being applied by the Consolidated Entity is the decision that ATC Alloys Limited is not controlling its subsidiaries in Hong Kong and Vietnam.

3. Trade and other receivables

Trade receivables are recognised initially at fair value and subsequently measured at amortised cost, less provision for impairment loss. Trade receivables are due for settlement no more than 120 days from the date of recognition.

Related party loans

The Consolidated Entity has provided a Loan to Asia Tungsten Products Co. Limited (**ATCHK**) over past years which has been fully impaired in prior year.

	31-Dec-18	30-Jun-18
	\$	\$
Trade and term receivables	1,874	1,874
Other receivables	13,671	16,827
Loan receivable - HK	27,717,386	27,717,386
Less: provision for impairment	(27,717,386)	(27,717,386)
Total Trade and other receivables	15,545	18,701

Key judgements – impairment

The impairment has been based on the followings:

- no repayment in the year.
- interest not paid.
- net deficiency of the entity.
- Losses being generated.

Notes to the Consolidated Financial Statements For The Half-Year Ended 31 December 2018

4. Trade and other payables

	31-Dec-18	30-Jun-18
	\$	\$
<u>Unsecured:</u>		
Trade and other payables	3,407,813	2,457,100

Trade and other payables are non-interest bearing usually settled on 30 day terms.

5. Financial liabilities short-term

	31-Dec-18	30-Jun-18
	\$	\$
Secured Debt facilities – Siderian Capital (i)	3,111,778	2,729,179
Secured Convertible Notes (ii)	4,130,000	4,130,000
Cost of notes to be amortised	(18,158)	(18,158)
Promissory Notes (iii)	400,000	400,000
Unsecured Loans – Funds advanced (iv)	720,000	720,000
Total financial liabilities	8,343,620	7,961,021

(i) The debt facility was provided by Siderian Resource Capital Limited and was due to be repaid including all outstanding interest and charges on 20 April 2017 as per the agreed terms in the latest Forbearance letter dated 30 March 2017. Interest is payable at 17%. Loan is secured by the ferrotungsten liner and other company assets. The Loan may be called in to be repaid at any time due to the breaches of the loan agreement. The loan is currently being re-negotiated with potential terms included in subsequent events. The Company continues to accrue the interest payable.

(ii) The secured convertible notes rank second to the secured debt facility and attract an interest rate of 12% and mature on 1 July 2018. These notes can be repaid in cash or converted at the relevant conversion rate to ordinary shares at the holders' discretion:

- 37 Notes totalling \$1,770,000 are convertible at \$0.25 per share;
- 31 Notes totalling \$1,320,000 are convertible at \$0.05 per share;
- 12 Notes totalling \$300,000 are convertible at the lower of \$0.05 per share and the lowest issue price of any shares issued prior to maturity date;
- 10 Notes totalling \$250,000 are convertible at the lower of \$0.05 per share and the lowest issue price of any shares issued prior to maturity date or the price implied by any corporate action;
- 1 Notes totalling \$50,000 are convertible at the lower of \$0.025 per share and the lowest issue price of any shares issued prior to maturity date;
- 3 Notes totalling \$140,000 are convertible at the lower of \$0.01 per share and the lowest issue price of any shares issued prior to maturity date or the price implied by any corporate action; and
- 6 Notes totalling \$300,000 are convertible at the lower of \$0.001 per share and the lowest issue price of any shares issued prior to maturity date or the price implied by any corporate action;

Interest on the convertible notes is payable in ordinary shares at six monthly intervals. The Company is currently renegotiating the conditions of the Convertible notes and proposes to convert them to equity as per the notice of meeting for the AGM. Also refer to subsequent event note 6.

(iii) These promissory notes were provided by Almonty Industries Inc and were due to be repaid including all outstanding interest on 29 July 2017 for the principal amount of \$150,000 and 18 August 2017 for the principal amount of \$250,000. The Company is in the process of negotiating an extension for the repayment term and the company has negotiated with a third party to take over the loan and repay the loan, this third-party loan will then extend out repayment and convert part to equity. No formal terms have been finalised.

(iv) The Unsecured Loan – Funds Advanced where provided by:

- Ochre Holdings Limited – a Company related Nathan Featherby and Saxon Ball who are Directors on both Companies for \$420,000, and
- Unrelated parties for \$300,000.

Notes to the Consolidated Financial Statements For The Half-Year Ended 31 December 2018

5. Financial liabilities short-term continued

The Unsecured loans are unsecured and with no interest payable, and only to be repaid by the Company when it has the financial capacity to repay the loan, or the parties agree to convert the debt to equity.

Financial Liabilities

Non-derivative financial liabilities (excluding financial guarantees) are subsequently measured at amortised cost using the effective interest rate method.

6. Subsequent Events

Subsequent to year end the following material subsequent events occurred:

Joint Venture

Once the previous dispute between the Company and the Joint Venture Partner had being amicably resolved this allow the parties to run the Vietnam Ferrotungsten plant. As a result of the resolution of the Dispute the legal representatives of Mr Chen on the 29 October 2018 filed a consent summons with the High Court of Hong Kong to effectively discontinuing the proceedings in Hong Kong.

The Company, along with its 40% joint venture partner, Mr Chen (George) Guangyu, carried out a low risk contract processing run over May & June 2019 at the Plant to demonstrate the continuing good operating condition of the Plant and ensure that the Plant remains operational and well maintained. The plant operated in good condition. The company successfully contract processed in excess of 100mt of good quality ferrotungsten. The re-commencement of production at the world-class ferrotungsten plant, only one of two such operating plants in the world, will help kickstart unlocking the potential and unexploited value of the Company's asset. The Company will now look to further processing opportunities.

The resolution of the Dispute then instigated the appointment of Mr Chen to the board of the Company as a non-executive director on 11 September 2018. Since his appointment the Company and Mr Chen have worked closely to resolve any remaining issues of the Dispute and have also been addressing the best way to manage the Joint Venture moving forward and maintain transparency in the operations and management of the Ferrotungsten Plant in Vietnam (**Plant**). Mr John Chegwidan was also appointed as a Non-Executive Director on 11 September 2018, to work with the Company and joint venture party and with the Vietnam Operation.

MOU With JV Partner

On the 9 July the Company announced that it has entered into a Memorandum of Understanding (**MOU**) with its joint venture partner and non-executive director, Mr George (Guangyu) Chen (**Mr Chen**) to restructure the Vietnamese Ferro-Tungsten producing joint venture (**Joint Venture**) which is owned by the 60% owned Asia Tungsten Products Co Limited (**ATCHK**) (**Proposed Transaction**).

Under the terms of the MOU, the Company has agreed to purchase Mr Chen's 40% shareholding in ATCHK, resulting in the Company's ownership of the Ferrotungsten Plant increasing to 100% via the Proposed Transaction.

The purchase of the additional 40% of ATCHK will be conducted on the following terms and conditions:

- (a) ATA will provide to Mr Chen, as consideration A\$8,000,000 in fully paid ordinary shares in the Company, issued upon completion of the Proposed Transaction (**Consideration Shares**), at an issue price being the lesser of:

Notes to the Consolidated Financial Statements For The Half-Year Ended 31 December 2018

6. Subsequent Events continued

- (i) \$0.02 per share; or
 - (ii) the issue price of shares issued by the Company as part of a proposed \$2.5 million capital raising; or
 - (iii) the conversion price of shares of any convertible note holder or creditor of the Company.
- (b) The Proposed Transaction will be subject to the execution of a formal, binding sale and purchase agreement.
- (c) The Proposed Transaction will be subject to a number conditions precedent which must be satisfied before the Proposed Transaction may complete:

Capital Raising

As at the date of this report, the Company is well advanced in preparations for a capital raising, intended to raise up to A\$2.8 million. The entitlement issue is proposed to be supported by Pulse Markets Pty Ltd. Pulse has entered into a mandate on the 6 August 2019 to be the lead manager of the entitlements issue. Pulse will help with the capital raising and provide general corporate and financial advice. Pulse will charge a lead managers fee of 6% on funds raised and charge a mandate fee of \$60,000 to be paid in 6 monthly instalments of \$10,000 per month.

The company is process on issuing a Notice of Meeting in September 2019 for its Annual General Meeting that will include a resolution to raise up to \$2,817,829 through a non-renounceable entitlement issue at 1 cent per share. The Company is also seeking approval at this meeting to issue shares for the conversion of some of the Company's liabilities to equity, including \$4.13 million in convertible notes, \$2 million in Creditors and unsecured loans, and \$500,000 in Secured loans.

On the 3 September 2019 the Company entered into a loan agreement of \$127,500 which is unsecured and convertible with the Fern Street capital partner. Funds were received in August and September 2019.

Siderian facility

The Company has been continuing discussions with its secured lender, Siderian Resource Capital Limited (**Siderian**), in relation to the repayment of the Company's debt to Siderian. Siderian is presently supporting a settlement and resolution for the payment of the debt that is mutually beneficially to both parties. The debt is still the highest-ranking security and continues to be Siderian's right to enforce action against the Company for the repayment of their outstanding debt. The Company continues to bring to account any interest payable and administration/legal fees owing to Siderian. The Siderian Loan is affected by foreign exchange, and presently totals including interest and costs US\$2.4 million. The Company is negotiating a settlement based on the pending entitlements issue of cash and shares. No formal agreement has yet to be finalised. In the event that the Siderian Facility is not paid in full Siderian has agreed to consider any arrangement put forward by the Company to extend the term of the Siderian Facility with satisfactory terms for the balance of repayment. Any arrangement may include conditions and milestones, which relate to future capital raisings, business performance, ownership structure of the Company, events of default and amendments to the existing loan agreements and the Siderian Facility's security.

Almonty Promissory Notes

These promissory notes were provided by Almonty Industries Inc and were due to be repaid including all outstanding interest on 29 July 2017 for the principal amount of \$150,000 and 18 August 2017 for the principal amount of \$250,000. The Company is in the process of negotiating an extension for the repayment term and the company has negotiated with a third party to take over the loan and repay the loan, this third-party loan will then extend out the repayment time and

Notes to the Consolidated Financial Statements For The Half-Year Ended 31 December 2018

6. Subsequent Events continued

at a more favourable interest rate and the possibility to convert part to equity. No formal terms have been finalised.

7. Related party transactions

Balances and transactions between the Company and its subsidiaries, which are related parties of the Company, have been eliminated on consolidation and are not disclosed in this note. Details of transactions between the Consolidated Entity and other related parties are disclosed below:

Trading transactions

During the half-year, the Company entered into the following trading transactions with related parties. The amounts below relating to trading transactions are including GST where applicable:

- (i) Ochre Group Holdings Limited (OGH), an entity associated with Mr Nathan Featherby and Saxon Ball, received \$150,000 (December 2017: \$150,000) in relation to corporate advisory services provided to the Company. As at balance date the Company owed \$538,880 (June 2018: \$413,880) to OGH.
- (ii) Enrizen Accounting Pty Ltd (EA), an entity associated with Trent Franklin, received \$48,000 (December 2017: \$64,525) in relation to company secretarial and accounting services provided to the Company. As at balance date the Company owed \$250,167 (June 2018: \$197,367) to EA.
- (iii) Enable Finance Pty Ltd, (EF) an entity associated with Trent Franklin, received \$nil (December 2017: \$1,433) in relation to financing and administration services to the Company for insurance. As at balance date the Company owed \$37,889 (June 2018: \$44,889) to EF.
- (iv) Enrizen Pty Ltd, (EPL) an entity associated with Trent Franklin, received \$Nil (December 2017: \$3,000) in relation to insurance services to the Company. As at balance date the Company owed \$Nil (June 2017: \$3,300) to EPL.
- (v) Enrizen Lawyers Pty Ltd, (EL) an entity associated with Trent Franklin, received \$53,301 (December 2017: \$11,608) in relation to legal services provided to the Company. As at balance date the Company owed \$148,165 (June 2018: \$89,854) to EL.
- (vi) Ausnom Pty Ltd an entity associated with John Chegwidden, received \$3,000 (December 2017: \$Nil) in relation to corporate and director services provided to the Company. As at balance date the Company owed \$3,000 (June 2018: nil) to Ausnom.
- (vii) Imants Kins received \$36,000 (December 2017: \$6,000) as a Director and Chairman of the Company. As at balance date the Company owed \$42,000 (June 2018: \$6,000) to Kins.
- (viii) Chen (George) Guangy received \$3,000 (December 2017: \$Nil) as a Director of the Company. As at balance date the Company owed \$3,000 (December 2017: \$Nil) to Chen.
- (ix) Enrizen Capital Pty Ltd (ECL) an entity associated with Trent Franklin, received \$275,000 (inclusive of GST) (December 2017: \$Nil) in relation to corporate advisory services to the Company. As at balance date the Company owed \$275,000 (December 2017: \$Nil) to ECL. It is the intention that the Company will pay \$250,000 of this amount owed to ECL in fully paid ordinary shares in the Company. ECL has complete discretion as to whether the debt owing to it is payable in cash or shares.

Notes to the Consolidated Financial Statements For The Half-Year Ended 31 December 2018

Loan to related party

The Group has provided Loan to Asia Tungsten Products Co. Limited which was eliminated as part of consolidation in prior year; while, the Company has fully impaired the loan in current year. The details of loans are disclosed in note 3.

8. Contingent Liabilities and Contingent Events

The Board of Directors believe that there are no contingent liabilities or capital equipment commitments up to or subsequent to the 31 December 2018 for either the parent company or its Australian subsidiary (30 June 2018: \$Nil).

Directors' Declaration

In accordance with a resolution of the directors of ATC Alloys Ltd, the directors of the company declare that:

- 1) the financial statements and notes, as set out on pages 9 to 20, are in accordance with the *Corporations Act 2001*, *Corporations Regulations 2001* and other mandatory professional reporting requirements:
 - (a) comply with Accounting Standard AASB 134: Interim Financial Reporting; and
 - (b) give a true and fair view of the financial position as at 31 December 2018 and of the performance for the half-year ended on that date.

- 2) 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.

A handwritten signature in black ink, appearing to read 'Imants Kins', is written over a light grey rectangular background.

Imants Kins
Chairman

12 September 2019

Criterion Audit Pty Ltd

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Independent Auditor's Review Report

To the Members of ATC Alloys Limited

We have reviewed the accompanying half-year financial report of ATC Alloys Limited ("the Company") and Controlled Entities ("the Consolidated Entity") which comprises the consolidated statement of financial position as at 31 December 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 half-year ended on that date, a statement of accounting policies, other selected explanatory notes and the directors' declaration of the Consolidated Entity, comprising the Company and the entities it controlled during the half-year.

Directors Responsibility for the Half-Year Financial Report

The directors of the Company 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 control as the directors determine is necessary to enable the preparation of the half-year financial report that is free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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

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 ATC Alloys Limited and Controlled Entities is not in accordance with the Corporations Act 2001 including:

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

Material Uncertainty Regarding Continuation as a Going Concern

Without modifying our opinion above, we draw attention to Note 1 to the financial report, which indicates that the Consolidated Entity incurred a net loss of \$1,272,156 and as of that date, the Company had a net working capital deficiency of \$11,732,839 and net operating cash outflows of \$40,277. These conditions, along with other matters as set forth in Note 1, indicate the existence of a material uncertainty that may cast significant doubt about the ability of the Company to continue as a going concern and whether it will realise its assets and extinguish its liabilities in the normal course of business and at the amounts stated in the financial report.

Criterion Audit

CRITERION AUDIT PTY LTD

Watts

CHRIS WATTS CA
Director

DATED at PERTH this 12th day of September 2019