Neometals Ltd

A.C.N. 099 116 631

Half-Year Report

for the 6 months ended 31 December 2016

The directors of Neometals Ltd ("Company") ("Neometals") submit herewith the financial report of Neometals and its subsidiaries ("Group") ("Consolidated Entity") for the half-year ended 31 December 2016. In order to comply with the provisions of the Corporations Act 2001, the directors report as follows:

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

Mr S. Cole – Appointed 24 July 2008
Mr D. Reed – Appointed 20 December 2001
Mr C. Reed – Appointed 20 December 2001
Ms N. Streltsova – Appointed 14 April 2016
Mr D. Ritchie – Appointed 14 April 2016

REVIEW OF OPERATIONS

Neometals Ltd's (**ASX: NMT**) primary focus during the half year centred on advancing its advanced minerals projects, Mt Marion (Lithium) and Barrambie (Titanium).

MT MARION LITHIUM PROJECT

(Neometals Ltd 13.8%, Mineral Resources Limited (MRL) 43.1%, Ganfeng Lithium Co., Ltd (Ganfeng) 43.1% through Reed Industrial Minerals Pty Ltd (RIM))

During the period, RIM continued to advance the Mt Marion Lithium concentrate operation (Mt Marion) with first production of lithium achieved during the half year. The beneficiation plant was commissioned and is being progressively ramped up towards its full nameplate capacity of 2.2 million tonnes per annum (MTPA).

The first shipment of approximately 15,000 tonnes of lithium concentrate departed Kwinana on the 'Pacific Venus' in the first week of February.

Resource Extension and In-fill drilling

An updated Resource Estimate was published on 5 July 2016 following an exploration drilling program to extend the Mt Marion lithium resource. Further drilling and analysis of results followed the July estimate. The further drill program undertaken from July 2016 through September 2016 comprised 18,915m over 105 holes bringing total drilling for the resource to 83,819m over 931 holes.

Mt Marion's total Indicated and Inferred Mineral Resources were boosted by 160% with the Mineral Resource Estimate published on 5 July 2016. The October 2016 revision of Indicated and Inferred Mineral Resources boosted the 5 July 2016 estimate by a further 29% (Table 1 and 2).

The results of the 2016 drilling program have increased the Mineral Resource Estimate to Indicated and Inferred Mineral Resources of 77.8 Mt at 1.37% Li_2O and 1.09% Fe, at a cut-off grade of 0.5% Li_2O. A cut-off grade of 0.3% Li_2O was used in July and a cut-off grade of 0% was used in earlier estimates.

Table 1. Mt Marion Total Resource Table showing change from July 2016

Category (JORC, 2012)	Unit	5 July 2016[£]	27 October 2016[¥]	Change, %
Total	Mt	60.5	77.8	+28.6%
	Li_2O, %	1.36	1.37	
	Fe, %	1.09	1.09	
Contained Li_2O	kt	823	1,066	+29.5%

Table 2 Mt Marion Resource Table for 0.5% Li_2O cut-off

Category (JORC, 2012)	Unit	5 July 2016£	27 October 2016¥	Change, %
Indicated*	Mt	26.4	28.9	+9.5%
	Li2O, %	1.33	1.35	
	Fe, %	1.09	1.06	
Inferred*	Mt	34.1	48.9	+43.4%
	Li2O, %	1.39	1.38	
	Fe, %	1.08	1.10	

* Reporting category as per JORC, 2012

£ Li_2O cut-off grade of 0.3%

¥ Li_2O cut-off grade of 0.5%

Figures may not sum due to rounding

Significant figures do not imply an added level of precision

DOWNSTREAM LITHIUM PROCESSING PROJECT

Feasibility Study (FS)

During the period the Company advised that the ELi Lithium Hydroxide Plant FS confirmed the technical feasibility and economic viability of the proposed operation to produce 20,000tpa of lithium carbonate equivalent ('LCE') as battery quality lithium hydroxide and lithium carbonate by conversion of spodumene concentrates at a proposed plant in Malaysia. Refer to ASX release dated 11 July 2016. The FS incorporates an Engineering Cost Study ('ECS') with technical, engineering and economic assessments carried out to provide capital and operating cost estimates to an accuracy of ±15%.

Project Development and Corporate strategy

The Company announced on 30 September 2016 it had entered into a Memorandum of Understanding (MOU) with Mineral Resources Ltd (ASX:MIN) to jointly assess the development of a downstream lithium processing facility close to its Mt Marion Lithium Operation. A modern version of the conventional sulphate process is favoured for initial production while the ELi process undergoes pilot trials. The proposed location of the plant is the Eastern Goldfields region of Western Australia to eliminate the substantial bulk overseas shipping costs associated with the proposed FS location in Malaysia. Neometals and MIN have continued to study the project process and potential locations during the period.

LITHIUM HYDROXIDE PROCESSING TECHNOLOGY – ELi Process®
(Neometals 70% through Reed Advanced Materials Pty Ltd)

All downstream lithium processing technology and patents are owned by Reed Advanced Materials Pty Ltd ("RAM"). RAM is beneficially owned 70:30 by the Company and MRL.

The commercialisation program of the JV Partners patented ELi process will continue separately from arrangements under the aforementioned MOU with primary focus on its potential to reduce the cost of processing traditional salar brines as well as spodumene/hard rock supply sources.

Project Development and Corporate strategy

Subsequent to the completion of the FS, the Company has given further detailed consideration to the plan to base operations in Malaysia, to the timetable and the testing requirements for commercialisation of the ELi Process. The ELi Process will undergo appropriate further development to de-risk the commercial scale application as advised previously.

RAM is in discussions with potential users regarding sub-licensing the ELi Process to produce lithium hydroxide.

Lithium market

Lithium prices have remained high and are stimulating interest in construction of new processing capacity. The market demand is forecast to grow significantly for the next 4 years through to 2020 and will support the Neometals/MRL plans to commence production of lithium hydroxide in 2020.

The supply of lithium compounds, especially to battery applications, remained tight and spodumene concentrate supply is very constrained to any converter that has not entered into close partnership with concentrate producers. China Customs declared import prices increased to approximately USD11,000/t Li_2CO_3 (Source: GTIS). The addition of Chinese tariffs and taxes on the import price lifts the delivered prices for imported product broadly in line with the reported rates achieved by Chinese domestic producers of approximately USD15,000/t.

The current median prices for battery-grade lithium hydroxide have had steep increases to approximately USD14,000/t, on a CIF basis to Europe and US and now converged with Chinese prices average. There is anecdotal evidence of prices for small volume transactions in-excess of USD20,000/t (source: Industrial Minerals, 26 January 2017).

BARRAMBIE TITANIUM PROJECT
(Neometals 100% through Australian Titanium Pty Ltd)

During the period, the Company completed the refurbishment of its leased laboratory and mini-plant test facility in Montreal in preparation for the Barrambie pilot plant test program. The laboratory facilities are at operational status, the mini-plant has been refurbished and resumed operation on 12 December 2016 while the upgrade of the pilot facility is nearly complete. Barrambie is one of the world's highest grade titanium deposits, containing total Indicated and Inferred Mineral Resources of 47.2Mt at 22.2% TiO_2, 0.63% V_2O_5 and 46.7% Fe_2O_3, at a cut-off grade of 15% TiO_2 (see Mineral Resource Estimates further below).

Project Development and Corporate Strategy

The mini-plant operation was successful and some changes to the process were successfully evaluated. Those changes could deliver significant improvements to process economics and final product specification with material benefit to the Barrambie Project if implemented. The changes will be further evaluated and incorporated into a revision of the PFS if they deliver an improved project value.

The full pilot plant evaluation of the proprietary hydrometallurgical technology is planned to commence in the second half of 2017 following the revised mini-pilot plant optimisation testwork. Subject to the success of the full pilot scale test work it is Neometals' intention to proceed to Feasibility Study (FS) in 2018.

The currently preferred project development strategy is to advance the project to a suitable stage of evaluation to obtain a titanium industry partner who would fund and operate the development of the Barrambie project on a shared equity or joint-venture basis.

Titanium market

The majority of titanium feedstocks (an annual market of US$17 Billion or 85% by value) are used to produce titanium dioxide pigment which is then used as an additive in paints, plastics, paper and ink with the balance (15%) used to produce titanium metal products.

The current median price for high quality titanium dioxide pigment is US$2,650 per tonne on a CIF basis to USA (source: Industrial Minerals 26 January 2017).

NEOMET PROCESSING TECHNOLOGY
(25% Net Profit Interest through Alphamet Management Pty Ltd)

Neometals is responsible for managing the commercialisation and development of the technology ("Neomet Process"). All revenue received from the commercialisation of the technology will be split 25:75 between Neometals and the owners of the technology.

Neometals has a Strategic Alliance with Sedgman Limited (a wholly owned subsidiary of CIMIC Group Limited (ASX:CIM) to provide the platform for the commercialisation of the technology, at no up-front cost to Neometals. Sedgman's project team has been marketing the Acid Regeneration Plant and process technology, identifying initial QuickTest evaluation customers and readying the laboratory facilities. Neometals' strategy is to develop and hold a portfolio of royalty interests from sub-licencing the technology in addition to deploying the technology for the Barrambie Project.

The Company has a long-term lease for the commercial laboratory facilities from one of the owners of the technology for use by the Strategic Alliance partners to test third party material. These facilities are referenced in above paragraphs.

CORPORATE

Hannans Limited (ASX:HNR)

As at 31 December 2016 Neometals holds 709,833,333 Ordinary fully paid shares (42.3% of the issued capital) in Hannans Limited on an undiluted basis. At 31 December Hannans shares closed at 1.6c.

Neometals will assist Hannan's subsidiary Scandinavian Co to realise lithium, cobalt and carbon opportunities in Scandinavia through a technical assistance agreement. Neometals will hold 13.5% of Hannan's subsidiary once that agreement is finalised.

Finances

Cash and term deposits on hand as of 31 December 2016 totalled A$61.28 million, including $4.1 million in restricted use term deposits supporting performance bonds and other contractual obligations.

Capital Management

As at 31 December 2016 the Company had not acquired any shares through the on-market share buy-back (to acquire up to a maximum of 5% of the Company's current shares) or initiated the unmarketable parcel sale facility as previously foreshadowed.

The total number of shares on issue at 31 December 2016 was 563,000,865.

Dividends

On 11 August 2016, the Company formally declared a 2 cent unfranked dividend that was paid to shareholders on 26 August 2016 (2015: Nil).

MINERAL RESOURCE ESTIMATES

Mt Marion Resource Table for 0.5% Li_2O cut-off

Category (JORC, 2012)	Tonnage (Mt)	Li_2O%	Fe %
Indicated	28.9	1.35	1.06
Inferred	48.9	1.38	1.10
Total	**77.8**	**1.37**	**1.09**

All tonnage and grade figures have been rounded down to two or three significant figures, respectively; slight errors may occur due to rounding of values.

Barrambie Mineral Resource Estimate for 15% TiO_2 cut-off

Category (JORC 2012)	Tonnage (MT)	TiO_2 (%)	V_2O_5 (%)	Fe_2O_3 (%)	Al_2O_3 (%)	SiO_2 (%)
Indicated	34.7	22.25	0.64	46.77	9.48	14.95
Inferred	12.5	21.99	0.58	46.51	9.32	15.40
Total	**47.2**	**22.18**	**0.63**	**46.70**	**9.44**	**15.07**

All tonnage and grade figures have been rounded down to two or three significant figures, respectively; slight errors may occur due to rounding of values.

Compliance Statement

The information in this report that relates to Mineral Resource Estimates at the Mt Marion Lithium Project and Barrambie Titanium Project are extracted from the ASX Announcements entitled "Mt Marion Resource Upgrade" lodged 27 October 2016, and "Barrambie - Amended JORC 2012 Mineral Resource Estimate" lodged 6 December 2013. The Company confirms that it is not aware of any new information or data that materially affects the information included on the original market announcement and that all material assumptions and technical parameters underpinning the estimates in the relevant market announcement continue to apply and have not materially changed. The Company confirms that the form and context in which the Competent Person's findings are presented have not been materially modified form the original market announcement.

AUDITOR'S INDEPENDENCE DECLARATION

The auditor's independence declaration is included on page 6 of the half-year report.

Signed in accordance with a resolution of the directors made pursuant to s.306(3) of the Corporations Act 2001.

On behalf of the directors,

Christopher Reed
Managing Director
Perth, 9 March 2017

Deloitte Touche Tohmatsu
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The Board of Directors
Neometals Ltd
Level 1
672 Murray Street
West Perth WA 6005

9 March 2017

Dear Board Members

Neometals Ltd

In accordance with section 307C of the Corporations Act 2001, I am pleased to provide the following declaration of independence to the directors of Neometals Ltd.

As lead audit partner for the review of the financial statements of Neometals Ltd for the half-year ended 31 December 2016, I declare that to the best of my knowledge and belief, there have been no contraventions of:

(i) the auditor independence requirements of the Corporations Act 2001 in relation to the review; and

(ii) any applicable code of professional conduct in relation to the review.

Yours sincerely

Deloitte Touche Tohmatsu

DELOITTE TOUCHE TOHMATSU

M. Gover

Mark Gover
Partner
Chartered Accountants

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Independent Auditor's Review Report to the Members of Neometals Ltd

Report on the Half-Year Financial Report

We have reviewed the accompanying half-year financial report of Neometals Ltd, which comprises the condensed consolidated statement of financial position as at 31 December 2016, and condensed consolidated statement of profit or loss and other comprehensive income, the condensed consolidated statement of cash flows and the condensed consolidated statement of changes in equity for the half-year ended on that date, selected explanatory notes and, the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the end of the half-year or from time to time during the half-year as set out on pages 9 to 22.

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 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 half-year financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the Neometals Ltd financial position as at 31 December 2016 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 Neometals Ltd, 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.

Auditor's Independence Declaration

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*, which has been given to the directors of Neometals Ltd, would be in the same terms if given to the directors as at the time 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 Neometals Ltd 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 2016 and of its performance for the half-year ended on that date; and

(b) complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

Deloitte Touche Tohmatsu

DELOITTE TOUCHE TOHMATSU

M. Gover

Mark Gover
Partner
Chartered Accountants
Perth, 9 March 2017

Directors' declaration

The directors declare that:

(a) 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;

(b) in the directors' opinion, the attached financial statements and notes thereto are in accordance with the *Corporations Act 2001*, including compliance with accounting standards and giving a true and fair view of the financial position and performance of the consolidated entity.

Signed in accordance with a resolution of the directors made pursuant to s.303(5) of the Corporations Act 2001.

On behalf of the Directors

CReed.

Christopher Reed
Managing Director
9 March 2017

Condensed consolidated statement of profit or loss and other comprehensive income for the half year ended 31 December 2016

	Note	31 Dec 2016 $	31 Dec 2015 $
Continuing operations			
Revenue		-	-
Cost of sales		-	-
Gross profit/(loss)		-	-
Forex gain/(loss)		63,862	(371,555)
Other income		832,271	175,217
Administration expenses		(1,340,448)	(1,027,978)
Employee expenses		(1,464,558)	(741,531)
Finance costs		(66,973)	(217,850)
Occupancy expenses		(256,671)	(106,798)
Marketing expenses		(47,512)	-
Other (expense) / income		(296,644)	113,393
Write-off of non-current assets		(1,409)	(5,029)
Share of profit / (loss) joint venture	4	33,770	(106,871)
Share of profit / (loss) in associates	5	(18,849)	-
Gain on sale of investment in Joint Venture	7	-	25,963,037
Gain on deconsolidation	8	9,487,577	188,806
Profit before income tax		6,924,416	23,862,841
Income tax benefit		342,311	-
Profit for the period from continuing operations		7,266,727	23,862,841
Other comprehensive income			
Items that may be reclassified subsequently to profit or loss			
Net fair value gain on available-for-sale financial assets		74,113	-
Total comprehensive income for the period		**7,340,840**	**23,862,841**
Profit attributable to:			
Owners of the Company		**7,340,840**	**23,862,841**
Total comprehensive income attributable to:			
Owners of the Company		**7,340,840**	**23,862,841**
Profit per share			
From continuing and discontinued operations:			
Basic (cents per share)		1.29	4.53
Diluted (cents per share)		1.28	4.53

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

Condensed consolidated statement of financial position
as at 31 December 2016

	Note	31 Dec 2016 $	30 Jun 2016 $
Current assets			
Cash and cash equivalents		57,252,523	73,223,833
Trade and other receivables		1,293,666	643,751
Loan to joint venture		1,727,225	-
		60,273,414	73,867,584
Assets classified as held for sale		-	1,625,705
Total current assets		**60,273,414**	**75,493,289**
Non-current assets			
Loan to joint venture		1,621,141	1,384,580
Property, plant and equipment		134,268	144,859
Exploration and evaluation expenditure		11,709,572	11,607,131
Intangibles		161,946	85,560
Investment in joint ventures	4	238,028	204,258
Investment in associate	5	12,695,651	-
Other financial assets		4,025,000	6,435,625
Other non-current assets		345,018	345,018
Total non-current assets		**30,930,624**	**20,207,031**
Total assets		**91,204,038**	**95,700,320**
Current liabilities			
Trade and other payables		203,283	482,266
Borrowings		11,608	11,939
Provisions		1,156,627	1,057,596
		1,371,518	1,551,801
Liabilities directly associated with assets classified as held for sale		-	96,607
Total current liabilities		**1,371,518**	**1,648,408**
Non-current liabilities			
Borrowings		21,690	27,804
Provisions		3,982,611	4,414,456
Total non-current liabilities		**4,004,301**	**4,442,260**
Total liabilities		**5,375,819**	**6,090,668**
Net assets		**85,828,219**	**89,609,652**
Equity			
Issued capital	6	160,040,473	160,047,735
Reserves		6,617,319	6,398,200
Accumulated losses		(80,829,573)	(76,836,283)
Total equity		**85,828,219**	**89,609,652**

This condensed consolidated statement of financial position should be read in conjunction with the accompanying notes.

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Condensed consolidated statement of changes in equity

for the Half-Year ended 31 December 2016

	Issued Capital $	Investment revaluation reserve $	Other equity reserve $	Share based payments reserve $	Accumulated losses $	Total $
Balance as at 1/7/15	157,910,617	-	300,349	5,269,552	(150,260,778)	13,219,740
Profit for the period	-	-	-	-	23,862,841	23,862,841
Total comprehensive income for the period	-	-	-	-	23,862,841	23,862,841
Recognition of share-based payments	-	-	-	66,898	-	66,898
Recognition of convertible note equity (see Note 5&6)	2,000,000	-	-	-	-	2,000,000
Recognition of issue of shares under the employee rights plan	137,125	-	-	(137,125)	-	-
Issue of share capital	-	-	-	-	-	-
Share issue costs, net of tax	(5,517)	-	-	-	-	(5,517)
Balance at 31/12/15	**160,042,225**	**-**	**300,349**	**5,199,325**	**(126,397,937)**	**39,143,962**
Balance as at 1/7/16	160,047,735	801,937	300,349	5,295,914	(76,836,283)	89,609,652
Profit (Loss) for the period	-	-	-	-	7,266,727	7,266,727
Other comprehensive income, net of tax	-	74,113	-	-	-	74,113
Total comprehensive income for the period	-	74,113	-	-	7,266,727	7,340,840
Recognition of share-based payments	-	-	-	145,006	-	145,006
Recognition of issue of shares under the employee rights plan	-	-	-	-	-	-
Issue of dividends	-	-	-	-	(11,260,017)	(11,260,017)
Share issue costs, net of tax	(7,262)	-	-	-	-	(7,262)
Balance at 31/12/16	**160,040,473**	**876,050**	**300,349**	**5,440,920**	**(80,829,573)**	**85,828,219**

This condensed consolidated statement of changes in equity should be read in conjunction with the accompanying notes.

Condensed consolidated statement of cash flows
for the half year ended 31 December 2016

	Note	31 Dec 2016 $	31 Dec 2015 $
Cash flows from operating activities			
Tax refunds		47,805	300,631
Payments to suppliers and employees		(3,793,046)	(3,193,929)
Net cash used in operating activities		(3,745,241)	(2,893,298)
Cash flows from investing activities			
Exploration and evaluation costs		(253,768)	(681,165)
Payments for intangible assets		(86,812)	-
Payment for property, plant & equipment		(3,105)	(16,648)
Net cash outflow on disposal of subsidiary		(1,000,000)	-
Proceeds from sale of interest in Joint Venture		-	26,287,498
Loan from / (to) Jointly Controlled Entities		(2,228,549)	1,527,392
Prepayment for investment in equity instruments		(203,000)	-
Interest received		709,779	36,704
Transfer from restricted deposits		1,000,000	1,070,000
Purchase of other assets		-	(345,018)
Net cash (used in)/generated by investing activities		(2,065,455)	27,878,763
Cash flows from financing activities			
Interest paid		(1,093)	(38,798)
Payment for share issue costs		(7,261)	(5,517)
Dividends paid		(11,260,017)	-
Proceeds from repayment of borrowings		39,007	26,103
Net cash used in financing activities		(11,229,364)	(18,212)
Net (decrease)/increase in cash and cash equivalents		(17,040,060)	24,967,253
Cash and cash equivalents at the beginning of the period		74,228,721	1,442,648
Effects of exchange rate changes on the balance of cash held in foreign currencies		63,862	(371,555)
Cash and cash equivalents at the end of the period		57,252,523	26,038,346

This condensed consolidated statement of cash flows should be read in conjunction with the accompanying notes.

Index to notes to the condensed consolidated financial statements

Note	Contents
1	Significant accounting policies
2	Segment information
3	Dividends
4	Investment in joint ventures
5	Investment in associates
6	Share capital
7	Profit on sale of investment in Joint Venture
8	Deconsolidation of subsidiary
9	Financial instruments
10	Commitments
11	Events subsequent to balance date

Notes to the condensed consolidated financial statements

1. Significant accounting policies

Statement of compliance

The half-year financial report is a general purpose financial report prepared in accordance with the Corporations Act 2001 and AASB 134 'Interim Financial Reporting'. Compliance with AASB 134 ensures compliance with International Financial Reporting Standard IAS 34 'Interim Financial Reporting'. The half-year financial report does not include notes of the type normally included in an annual financial report and shall be read in conjunction with the most recent annual financial report.

Basis of preparation

The condensed consolidated financial statements have been prepared on the basis of historical cost, except for the revaluation of certain non-current assets and financial instruments. Cost is based on the fair values of the consideration given in exchange for assets. All amounts are presented in Australian dollars, unless otherwise noted.

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 annual financial report for the financial year ended 30 June 2015 except for the impact of Standards and Interpretations described below. These accounting policies are consistent with Australian Accounting Standards and with International Financial Reporting Standards.

In the current year, the Group has adopted all of the new and revised Standards and Interpretations issued by the Australian Accounting Standards Board (the AASB) that are relevant to its operations and effective for the current half year.

New and revised Standards and amendments thereof and Interpretations effective for the current half year that are relevant to the Group include:

• **AASB 2014-1 '***Amendments to Australian Accounting Standards'* Part D – '*Consequential Amendments arising from AASB 14 Regulatory Deferral Accounts*'
• **AASB 1057 '***Application of Australian Accounting Standards and AASB 2015-9 Amendments to Australian Accounting Standards – Scope and Application Paragraphs'*
• **AASB 2014-3 '***Amendments to Australian Accounting Standards – Accounting for Acquisitions of Interests in Joint Operations'*
• **AASB 2014-4 '***Amendments to Australian Accounting Standards – Clarification of Acceptable Methods of Depreciation and Amortisation'*
• **AASB 2014-9 '***Amendments to Australian Accounting Standards – Equity Method in Separate Financial Statements'*
• **AASB 2015-1 '***Amendments to Australian Accounting Standards – Annual Improvements to Australian Accounting Standards 2012-2014 Cycle'*
• **AASB 2015-2 '***Amendments to Australian Accounting Standards – Disclosure Initiative: Amendments to AASB 101'*

The adoption of all the new and revised Standards and Interpretations has not resulted in any changes to the amounts reported for the current or prior half years for the Group.

2. Segment information

Basis for segmentation:
AASB 8 Operating Segments requires the presentation of information based on the components of the entity that management regularly reviews for its operational decision making. This review process is carried out by the chief operating decision maker ("**CODM**") for the purpose of allocating resources and assessing the performance of each segment. The amounts reported for each operating segment is the same measure reviewed by the CODM in allocating resources and assessing performance of that segment.

For management purposes the Company now operates under three reportable operating segments comprised of the Company's lithium, titanium and vanadium and 'other segments'. The lithium, titanium and other operating segments are separately identified given they possess different competitive and operating risks, and meet the quantitative criteria as set out in AASB 8. The 'other segments' category is the aggregation of all remaining operating segments given sufficient reportable operating segments have been identified.

For the six months ended 31 December 2016

Reportable operating segments	Lithium $	Titanium $	Other $	Unallocated $	Total $
Continuing operations					
Revenue from external customers	-	-	-	-	-
Cost of sales	-	-	-	-	-
Gross profit/(loss)	**-**	**-**	**-**	**-**	**-**
Other income	-	27,400	1,047	803,823	832,270
Forex gain / (loss)	-	-	-	63,862	63,862
Total Expenses	-	(551,763)	(2,307)	(2,920,144)	(3,474,214)
Share of profit / (loss) in associates and joint ventures	33,770	-	(18,849)	-	14,921
Profit on deconsolidation	-	-	9,487,577	-	9,487,577
Consolidated profit(loss) before tax	**33,770**	**(524,363)**	**9,467,468**	**(2,052,459)**	**6,924,416**

As at 31 December 2016

Reportable operating segments	Lithium $	Titanium $	Other $	Unallocated $	Total $
Movement in assets	1,997,557	297,601	9,665,462	(16,455,493)	(4,494,873)
Impairment	-	-	(1,409)	-	(1,409)
Consolidated additions / (deductions) to assets	1,997,557	297,601	9,664,053	(16,455,493)	(4,496,282)
Consolidated total assets	**3,586,394**	**12,084,368**	**12,704,614**	**62,828,662**	**91,204,038**

For the six months ended 31 December 2015

Reportable operating segments	Lithium $	Titanium $	Other $	Unallocated $	Total $
Continuing operations					
Revenue from external customers	-	-	-	-	-
Cost of sales	-	-	-	-	-
Gross profit/(loss)	**-**	**-**	**-**	**-**	**-**
Other income	-	-	1	175,216	175,217
Forex Gain / (Loss)	-	-	-	(371,555)	(371,555)
Total Expenses	(138,526)	50,777	(11,384)	(1,993,531)	(2,092,664)
Profit on sale of investment in Joint Venture	25,963,037	-	-	-	25,963,037
Profit on deconsolidation	188,806	-	-	-	188,806
Consolidated profit/(loss) before tax	**26,013,317**	**50,777**	**(11,383)**	**(2,189,870)**	**23,862,841**

As at 31 December 2015

Reportable operating segments	Lithium $	Titanium $	Other $	Unallocated $	Total $
Movement in assets	(1,719,780)	304,379	551,592	(79,980)	(943,789)
Impairment	-	-	(5,029)	-	(5,029)
Consolidated additions / (deductions) to assets	(1,719,780)	304,379	546,563	(79,980)	(948,818)
Consolidated total assets	**1,094,851**	**11,703,472**	**691,040**	**31,638,662**	**45,128,026**

3. Dividends

A special dividend of 2 cents per share unfranked was paid to the holders of fully paid ordinary shares on 26 August 2016 (31 December 2015: nil).

4. Investment in joint ventures

Name of operation	Principal activity	Interest	
		31 December 2016 %	30 June 2016 %
Reed Industrial Minerals Pty Ltd(i)	Development of lithium project	13.8	13.8
Reed Advanced Materials Pty Ltd(ii)	Evaluation of lithium hydroxide process	70	70

The Consolidated Entity’s interest in assets employed in the above joint ventures is detailed below.

4. Investment in joint ventures (continued)

(i) Reed Industrial Minerals Pty Ltd

Summarised financial information for the joint venture:

	31 December 2016 $	30 June 2016 $
Carrying value of investment in the joint venture	238,028	204,258
Loan to joint venture [(i)]	1,727,225	72,000
Share of (profit) / loss of joint venture recognised in profit or loss[(ii)]	(33,770)	33,318
Current assets	485,723	237,763
Non-current assets	69,068,684	32,244,234
Current liabilities	(50,172,783)	(14,225,964)
Non-current liabilities	(6,327,325)	(5,158,564)

(i) The loan to the joint venture has increased during the period to cover the Groups share of exploration and development costs.

(ii) The equity accounted share of the joint venture's gain / (loss) is adjusted against the carrying value of the investment in the joint venture.

The Group's share of the capital commitments made jointly with other joint venture partners relating to its joint venture, RIM, is as follows:

	31 December 2016 $	30 June 2016 $
Development expenditure commitments		
Not longer than 1 year	6,351,211	4,011,000
Longer than 1 year and not longer than 5 years	49,680	-
Longer than 5 years	37,260	-
Longer than 5 years	6,438,151	4,011,000

(ii) Reed Advanced Materials Pty Ltd

There were no material movements during the period in relation to this joint venture.

5. Investment in associate

Name of operation	Principal activity	Interest	
		31 December 2016 %	30 June 2016 %
Hannans Limited	Exploration of nickel and lithium	42.3	8.4

The above associate is accounted for using the equity method in this consolidated financial report. As at 30 June 2016, the investment was accounted for at fair value through profit or loss.

Summarised financial information for the associate:

	31 December 2016 $
Carrying value of investment in associate	12,695,651
Share of loss of associate recognised in profit or loss(i)	18,849
Current assets	1,639,386
Non-current assets	211,644
Current liabilities	(422,688)
Non-current liabilities	(121,885)

(i) The equity accounted share of the associate's loss is credited against the carrying value of the investment in the associate.

Shares held in associate are set out in the table below.

	31 December 2016		30 June 2016	
	No.	$	No.	$
Shares held in Hannans prior to disposal of REX(i)	63,750,000	1,147,500	63,750,000	1,410,625
Consideration shares received on disposal of REX(i)	620,833,333	11,175,000	-	-
Close out of options(ii)	25,250,000	392,000	-	-
Balance at the end of the period	**709,833,333**	**12,714,500**	63,750,000	1,410,625

(i) Shares have been valued at the market value on settlement date, 26 September 2016.

(ii) Shares valued at market rate on date of trade.

6. Share capital

During the half-year reporting period, Neometals Ltd issued the following share capital:

6 months to 31 December 2016:

During the 6 months to 31 December 2016 3,911,608 ordinary shares were issued to eligible employees following the vesting of performance rights pursuant to the Neometals Ltd performance rights plan.

During the 6 months to 31 December 2016 no share options over the company's ordinary shares were issued during the reporting period (2015: Nil).

During the 6 months to 31 December 2016 1,096,599 performance rights were issued to Neometals employees during the current half-year period (2015: 2,188,564) for nil cash consideration. These performance rights may result in the issue of a total of 1,096,599 shares if the applicable vesting and performance criteria are satisfied over the vesting period.

6 months to 31 December 2015:

50 million shares were issued on the conversion of the convertible notes on 18 November 2015.

In addition, during the half year 6,827,266 ordinary shares were issued to eligible employees following the vesting of performance rights pursuant to the Neometals Ltd performance rights plan of which 6,580,916 were issued to the CEO of the company.

During the 6 months to 31 December 2015 no share options over the company's ordinary shares were issued during the reporting period (2014: Nil).

2,188,564 performance rights were issued to Neometals employees during the current half-year period (2014: 9,394,155) for nil cash consideration. These performance rights may result in the issue of a total of 2,188,564 shares if the applicable vesting and performance criteria are satisfied over the vesting period.

7. Profit on sale of investment in Joint Venture

On 16 July 2015 Neometals and MIN (through its subsidiary PMI) announced that RIM has entered into a conditional Memorandum of Understanding ("MoU") with China's second largest lithium producer Ganfeng. The key commercial terms of the MoU were as follows:

(i) Ganfeng to acquire an up-front 25% shareholding in RIM by way of share sale and equity subscription leaving Neometals with 45% of RIM and MIN with 30% of RIM;
(ii) PMI and Gangeng to be granted options by Neometals pursuant to which they can elect to increase their respective shareholdings in RIM to 43.1% by around Q4 of 2016 by way of share purchase from Neometals;
(iii) MIN building, owning and operating the Mount Marion mining, crushing and beneficiation infrastructure and equipment pursuant to a fixed price mining services contract;
(iv) Ganfeng entering into a long-term offtake for 100% of the spodumene produced from the Mt Marion Lithium Project at benchmarked market prices subject to an agreed price floor. Under the agreement, from year 4 onwards Neometals and PMI reserve the right to take their percentage shareholding in RIM entitlements of production should they so elect; and
(v) prudential corporate governance arrangements for RIM between Ganfeng and RIM's existing shareholders with equal board representation for all shareholders.

The parties entered into formal agreements on 21 September 2015 and completion took place on 25 September 2015 that effected the 25% sell down by Neometals. This transaction has resulted in the recognition of a gain in profit or loss, calculated as follows:

	25 September 2015 $
Proceeds of disposal	26,287,498
Less carrying amount of investment	(324,461)
Profit on disposal	**25,963,037**

8. Deconsolidation of Subsidiary

<u>Half year ended 31 December 2016</u>

Deconsolidation of Reed Exploration Pty Ltd (REX)

On 26 September 2016, the Company divested its REX nickel projects by way of a sale of the subsidiary to Hannans Limited. A binding share sale agreement was executed on 10 August 2016 and settlement of the transaction took place on 26 September 2016.

The table below details the profit recognised on the deconsolidation of REX:

	26 September 2016 $
Net assets of REX de-recognised on deconsolidation	(687,423)
Cash amount paid in relation to the transaction	(1,000,000)
Shares received in Hannans Limited on settlement	11,175,000
Profit on disposal	**9,487,577**

Reconciliation of REX net assets de-recognised on deconsolidation:

	$
Current Assets	-
Non-current assets	687,423
Total Assets	**687,423**
Current liabilities	-
Non-current liabilities	-
Total Liabilities	-
Net Assets / (liabilities)	**687,423**

9. Financial Instruments

The fair value of the Group's financial assets and liabilities are determined on the following basis.

<u>Financial assets and financial liabilities that are measured at fair value on a recurring basis</u>

Subsequent to initial recognition, at fair value financial instruments are grouped into levels 1 to 3 based on the degree to which the fair value is observable. Levels are defined as follows:

(i) Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets of liabilities.

(ii) Level 2 fair value measurements are those derived from inputs other than quoted prices included with level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).

(iii) Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

At 31 December 2016, the Group has no material financial assets and liabilities that are measured on a recurring basis.

<u>Financial assets and financial liabilities that are not measured at fair value on a recurring basis (but where fair value disclosures are required)</u>

At 31 December 2016 and 31 December 2015, the carrying amount of financial assets and financial liabilities for the Group is considered to approximate their fair values.

10. Commitments

(a) Exploration and evaluation and joint venture commitments

The MRL-operated Mt Marion Project is a joint venture between MRL (43.1%), Neometals Ltd (13.8%) and one of the world's largest lithium producers Ganfeng Lithium Co. (43.1%). The crushing plant was constructed and fully commissioned in the December quarter. An amount payable for Neometals portion of committed sunken costs is $2 million and an amount for operational and development costs of $4.3 million which are required to be paid in the quarter ending March 2017. Other tenement commitments for the group total $438,262.

(b) Lease commitments

Non-cancellable operating lease commitments at reporting date total $776,025 (2015: 256,187). Finance lease commitments at reporting date total $33,297 (2015: Nil).

(c) Other

As referred to in Note 16 (i) to the Annual Financial Report for the year ended 30 June 2016, Barrambie Gas Pty Ltd, a wholly owned subsidiary of the Company, previously entered into a gas transmission agreement with DBNGP (WA) Transmission Pty Ltd for the Barrambie Project. As part of the agreement the Group was required to procure a "blocked" term deposit for $5.0 million (30 June 2015: $6.0 million) as security a bank guarantee, which represented the present value of the Group's commitment under the agreement. The obligations under the gas transmission agreement commenced on 1 July 2010. The security has been reduced from $5.0 million to $4.0 million during the half year ended 31 December 2016.

11. Events subsequent to balance date

No matters have arisen since 31 December 2016 that would be likely to materially affect the operations of the Group, or its state of affairs which has not otherwise been disclosed in this financial report.