

**ALLOY STEEL INTERNATIONAL, INC.
AND CONTROLLED ENTITIES**

ANNUAL FINANCIAL STATEMENTS

SEPTEMBER 30, 2014

ALLOY STEEL INTERNATIONAL, INC. AND CONTROLLED ENTITIES

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INDEPENDENT AUDITOR'S REPORT

TO THE BOARD OF DIRECTORS AND STOCKHOLDERS OF ALLOY STEEL INTERNATIONAL, INC.

We have audited the accompanying financial statements of Alloy Steel International, Inc. and Controlled Entities (the "Company"), which comprise the balance sheets as of September 30, 2014 and 2013, and the related statements of operations, comprehensive income, stockholders' equity, and cash flows for the years then ended, and the related notes to the financial statements.

MANAGEMENT'S RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Company's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

OPINION

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Alloy Steel International, Inc. and Controlled Entities as of September 30, 2014 and 2013, and the results of their operations and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

EMPHASIS OF MATTER

As discussed in Note 8 to the financial statements, the 2013 financial statements have been restated to correct a misstatement. Our opinion is not modified in relation to this matter.

/s/ UHY Haines Norton
Chartered Accountants

Perth, Australia
19 December 2014

ALLOY STEEL INTERNATIONAL, INC. AND CONTROLLED ENTITIES
CONSOLIDATED BALANCE SHEETS
September 30, 2014 and 2013

		Sep - 14		Sep - 13 Re-stated	
	ASSETS		Note		
CURRENT ASSETS					
Cash and cash equivalents		3	\$	7,720,048	\$ 8,780,660
Accounts receivable, less allowance for doubtful accounts of \$nil at September, 2014 and September 30, 2013				5,076,839	4,164,441
Inventories		4		6,439,409	3,195,563
Prepaid expenses and other current assets				422,573	741,430
TOTAL CURRENT ASSETS				<u>19,658,869</u>	<u>16,882,094</u>
PROPERTY AND EQUIPMENT, net		5		<u>8,645,891</u>	<u>10,128,639</u>
OTHER ASSETS					
Deferred tax asset		7		471,571	435,164
Other assets				17,863	17,863
Total other assets				<u>489,434</u>	<u>453,027</u>
TOTAL ASSETS			\$	<u>28,794,194</u>	\$ <u>27,463,760</u>
 LIABILITIES AND STOCKHOLDERS' EQUITY					
CURRENT LIABILITIES					
Notes payable, current portion		6	\$	110,429	\$ 166,692
Accounts payable				691,175	1,100,446
Royalties payable, related party				121,348	167,618
Current tax payable				656,858	1,253,476
Accrued payroll and related costs				523,907	710,218
Other accrued liabilities				2,292,606	2,173,588
TOTAL CURRENT LIABILITIES				<u>4,396,323</u>	<u>5,572,038</u>
LONG-TERM LIABILITIES					
Notes payable, less current portion		6		60,578	182,512
Deferred tax liabilities		7		330,547	245,083
Other Liabilities				36,303	57,969
TOTAL LONG-TERM LIABILITIES				<u>427,428</u>	<u>485,564</u>
COMMITMENTS AND CONTINGENCIES					
 STOCKHOLDERS' EQUITY					
Preferred Stock: \$0.01 par value; authorized 3,000,000 shares; issued and outstanding – none				-	-
Common Stock: \$0.01 par value; authorized 50,000,000 shares; 17,350,000 issued and outstanding				173,500	173,500
Capital in excess of par value				1,769,382	1,769,382
Retained earnings				23,041,226	18,549,380
Accumulated other comprehensive income				(982,595)	940,735
Total Alloy Steel International, Inc. stockholders' equity				<u>24,001,513</u>	<u>21,432,997</u>
Non controlling interest				(31,070)	(26,839)
TOTAL STOCKHOLDERS' EQUITY				<u>23,970,443</u>	<u>21,406,158</u>
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY			\$	<u>28,794,194</u>	\$ <u>27,463,760</u>

ALLOY STEEL INTERNATIONAL, INC. AND CONTROLLED ENTITIES
CONSOLIDATED STATEMENTS OF OPERATIONS
Years Ended September 30, 2014 and 2013

	Sep-14	Sep-13 Re-stated
Sales	\$ 27,041,021	\$ 27,978,949
Cost of Sales	<u>(14,369,038)</u>	<u>(14,857,797)</u>
Gross Profit	12,671,983	13,121,152
Operating Expenses		
Selling, general and administrative expenses	(6,873,839)	(6,779,449)
Profit (Loss) From Operations	<u>5,798,144</u>	<u>6,341,703</u>
Other Income (Expense)		
Interest income	86,106	46,798
Interest expense	(22,858)	(38,042)
Sundry income (Expense)	146,447	81,260
Realised foreign exchange profit (loss)	23,355	98,264
Unrealised foreign exchange profit (loss)	<u>512,513</u>	<u>469,395</u>
	<u>745,563</u>	<u>657,675</u>
Income (Loss) Before Income Tax (Expense) Benefit	6,543,707	6,999,378
Income tax (expense) benefit	<u>(2,056,092)</u>	<u>(2,096,043)</u>
Net Income (Loss)	4,487,615	4,903,335
Net (income) loss attributable to non-controlling interest	<u>4,231</u>	<u>1,408</u>
Net Income (Loss) Attributable to Alloy Steel International, Inc.	<u>\$ 4,491,846</u>	<u>\$ 4,904,743</u>
Basic Income (Loss) and Diluted Income (Loss) per Common Share		
	<u>\$ 0.26</u>	<u>\$ 0.28</u>
Weighted Average Common Shares Used in computing basic and diluted income (loss) per share	<u>17,350,000</u>	<u>17,350,000</u>

ALLOY STEEL INTERNATIONAL INC. AND CONTROLLED ENTITIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
Years Ended September 30, 2014 and 2013

	Sep-14	Sep-13 Re-stated
Net Income	\$ 4,487,615	\$ 4,903,335
Other Comprehensive Income (Loss)		
Foreign currency translation adjustment	<u>(1,923,330)</u>	<u>(2,365,953)</u>
Total Other Comprehensive Income (Loss)	<u>(1,923,330)</u>	<u>(2,365,953)</u>
Total Comprehensive Income	<u>\$ 2,564,285</u>	<u>\$ 2,537,382</u>
Total comprehensive income attributable to:		
Stockholders of Alloy Steel International, Inc	\$ 2,564,285	\$ 2,537,382
Non-controlling interest	<u>(4,231)</u>	<u>(1,408)</u>
	<u>\$ 2,560,054</u>	<u>\$ 2,535,974</u>

ALLOY STEEL INTERNATIONAL, INC. AND CONTROLLED ENTITIES
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
Years Ended September 30, 2014 and 2013

	Common Stock Shares	Common Stock Amount	Capital in Excess of Par Value	Retained Earnings	Accumulated Other Comprehensive Income	Non Controlling Interest	Total Stockholders' Equity
Balances, September 30, 2012	17,350,000	\$173,500	\$1,769,382	\$13,644,637	\$3,306,688	\$(25,431)	\$18,868,776
Net Income attributable to stockholders (re-stated)	-	-	-	4,904,743	-	(1,408)	4,903,335
Other comprehensive income (re-stated)	-	-	-	-	(2,365,953)	-	(2,365,953)
Balances, September 30, 2013 (re-stated)	17,350,000	\$173,500	\$1,769,382	\$18,549,380	\$940,735	\$(26,839)	\$21,406,158
Net Income attributable to stockholders	-	-	-	4,491,846	-	(4,231)	4,487,615
Other comprehensive income	-	-	-	-	(1,923,330)	-	(1,923,330)
Balances, September 30, 2014	17,350,000	\$173,500	\$1,769,382	\$23,041,226	\$(982,595)	\$(31,070)	\$23,970,443

ALLOY STEEL INTERNATIONAL, INC. AND CONTROLLED ENTITIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
Years Ended September 30, 2013 and 2014

	Sep-14	Sep-13 re-stated
Cash Flows From Operating Activities		
Net income	\$ 4,487,615	\$ 4,903,335
<i>Adjustments to reconcile net income to net cash provided by (used in) operating activities:</i>		
Depreciation and amortisation	1,715,777	1,146,964
Impairment	287,612	-
Credit for deferred income taxes	(121,871)	(165,692)
Profit/Loss on sale of plant and equipment	(66,378)	(9,936)
Loss attributable to non controlling interest	(4,231)	(1,408)
<i>Increase (decrease) in cash and cash equivalents attributable to changes in operating assets and liabilities:</i>		
Accounts receivable	(1,300,258)	1,613,961
Inventories	(3,533,752)	2,022,859
Prepaid expenses and other current assets	310,563	(536,127)
Accounts payable and other current liabilities	(481,173)	1,347,313
Income taxes payable	(167,587)	664,089
Net Cash Provided by (Used in) Operating Activities	1,126,317	10,985,358
Cash Flows From Investing Activities		
Purchase of property, plant and equipment	(1,611,327)	(1,410,801)
Proceeds on sale of property, plant and equipment	145,114	29,258
Net Cash Provided by (Used in) Investing Activities	(1,466, 213)	(1,381,543)
Cash Flows From Financing Activities		
Loans to companies	(40,698)	(44,387)
Repayments on notes and loans payable	(164,795)	(212,021)
Net Cash Provided by (Used in) Financing Activities	(205,493)	(256,408)
Effect of Foreign Exchange Rate Changes on Cash and Cash Equivalents		
	(515,223)	(506,081)
Net Increase (Decrease) in Cash and Cash Equivalents	(1,060,612)	8,841,326
Cash and Cash Equivalents at Beginning of Period	8,780,660	(60,666)
Cash and Cash Equivalents at End of Period	\$ 7,720,048	\$ 8,780,660
Supplemental disclosures of cash flow information,		
Cash paid during the year for:		
Income taxes	\$ 1,715,494	\$ 1,612,826
Interest	\$ 22,858	\$ 38,042

ALLOY STEEL INTERNATIONAL, INC. AND CONTROLLED ENTITIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Nature of operations

Alloy Steel International, Inc. (ASII), its 99.99% subsidiary, Alloy Steel Australia (Int) Pty Limited (ASAI) and its wholly owned entity PT Alloy Manufacturing Indonesia (PTAM), wholly owned subsidiaries Alloy Steel North America LLC (ASNA) and Team Arcoplate LLC (TA) and majority owned subsidiary Alloy Steel Mongolia LLC (ASM) (collectively the "Company") manufacture and distribute Arcoplate, a wear-resistant fused-alloy steel plate, to customers throughout the world.

2. Summary of significant accounting policies

Basis of Presentation

The Company adheres to accounting standards set by the Financial Accounting Standards Board (FASB). FASB sets generally accepted accounting principles (GAAP) in the United States of America that the Company follows to ensure the Company consistently reports its financial condition, results of operations and cash flows. References to GAAP issued by FASB in these notes are to *FASB Accounting Standards Codification* TM, sometimes referred to as the Codification or ASC. FASB finalized the Codification effective for periods ending on or after September 15, 2009. Prior FASB standards are no longer being issued by the FASB.

The Company's consolidated financial statements are denominated in United States dollars.

Principles of Consolidation

The consolidated financial statements include the accounts of ASII, ASAI, PTAM, ASNA, TA and ASM. All material intercompany balances and transactions have been eliminated in consolidation.

Revenue Recognition

The Company recognizes revenues when products are shipped and title passes to customers. Provisions are established, as appropriate, for returns and allowances and warranties in connection with sales.

Cash and Cash Equivalents

The Company considers all highly-liquid instruments purchased with maturities of three months or less to be cash equivalents.

Accounts Receivable

The Company carries its accounts receivable at cost less an allowance for doubtful accounts. On a periodic basis, the Company evaluates its receivables and establishes an allowance for doubtful accounts, based on the history of past write-offs and collections and current credit conditions. The Company has reviewed its outstanding accounts and, given the company's credit criteria and quality of clients, notwithstanding the current economic climate, has assessed that there is no need to raise an allowance for doubtful debts. Accounts are written off as uncollectible once the Company has exhausted its collection efforts.

Inventories

Inventories consist of Arcoplate and the materials used to manufacture Arcoplate. Inventories are valued at the lower of cost or net realizable value. Cost is determined principally on the first-in, first-out method.

ALLOY STEEL INTERNATIONAL, INC. AND CONTROLLED ENTITIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

2. Summary of significant accounting policies (continued)

Impairment of Long-Lived Assets

The Company periodically assesses the recoverability of the carrying amounts of long-lived assets, including intangible assets. A loss is recognized when expected undiscounted future cash flows are less than the carrying amount of the asset. The impairment loss is the difference by which the carrying amount of the asset exceeds its fair value. An impairment loss of \$288,000 on long lived assets were recorded in 2014.

Property and Equipment

Property and equipment are stated at cost less accumulated depreciation. Depreciation is computed using both the straight-line and declining value method over the estimated useful lives of the assets as follows:

Asset	Estimated Useful Lives
Plant and equipment	5-10 years
Furniture and fixtures	5-7 years
Vehicles	3-8 years
Office and computer equipment	3-5 years

Maintenance and repairs are charged to operations, while betterments and improvements are capitalized.

Advertising

Advertising costs are charged to operations as incurred and were approximately \$26,251 and \$29,336 for the years ended September 30, 2014 and 2013, respectively.

Income Taxes

The Company uses an asset and liability approach to financial reporting for income taxes. Deferred income tax assets and liabilities are computed for differences between the financial statement and tax bases of assets and liabilities that will result in future taxable or deductible amounts, based on enacted tax laws and rates applicable to the periods in which the differences are expected to affect taxable income. Valuation allowances are established, when necessary, to reduce deferred income tax assets to the amount expected to be realized.

The Company provides reserves for potential payments of tax to various tax authorities related to uncertain tax positions and other issues. Reserves are recorded based on a determination of whether and how much of a tax benefit taken in its tax filings or positions is more likely than not to be realized, assuming that the matter in question will be raised by the tax authorities. Potential interest and penalties associated with such uncertain tax positions are recorded as a component of income tax expense. The Company has made a comprehensive review of its uncertain tax positions. The Company believes appropriate provisions for outstanding issues have been made.

Income per Common Share

Basic income per share excludes dilution and is computed by dividing net income available to common stockholders by the weighted-average number of common shares outstanding during the period. Diluted earnings per share reflects the potential dilution that could occur if securities or other contracts to issue common stock were exercised or converted into common stock or resulted in the issuance of common stock that then shared in the earnings of the Company. Diluted income per common share was the same as basic income per common share since there were no common stock equivalents outstanding for both years presented.

ALLOY STEEL INTERNATIONAL, INC. AND CONTROLLED ENTITIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

2. Summary of significant accounting policies (continued)

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Foreign Currency Translation

Assets and liabilities of the Company's subsidiaries are translated into U.S. dollars at year-end exchange rates, revenues and expenses and cash flows are translated at average rates prevailing during the year. Resulting translation adjustments are recorded as a component of accumulated other comprehensive income.

Where the Company's subsidiaries undertake transactions in currencies other than their functional currency, the resulting gain or loss is recorded as income or expenditure as appropriate at the time the transaction is settled. Unsettled accounts at year end are revalued at the spot exchange rate as at that date and unrealized gains or losses are recorded in the Company's statement of operations.

3. Cash and cash equivalents

	2014	2013
Cash at bank	\$ 7,720,048	\$ 8,780,660
	<u>\$ 7,720,048</u>	<u>\$ 8,780,660</u>

Reconciliation of cash

Cash at the end of the financial year as shown in the statement of cash flows is reconciled to items in the Consolidated Balance Sheet as follows

Cash and cash equivalents	\$ 7,720,048	\$ 8,780,660
	<u>\$ 7,720,048</u>	<u>\$ 8,780,660</u>

The Company through ASAI has an overdraft facility of \$ 1 million (2013 - \$ 1 million) to assist with short term liquidity requirements.

4. Inventories

Inventories consist of the following at September 30, 2014 and 2013:

	2014	2013
Raw materials	\$ 1,676,217	\$ 716,132
Work in progress	172,175	384,726
Finished goods	4,591,017	2,094,705
	<u>\$ 6,439,409</u>	<u>\$ 3,195,563</u>

ALLOY STEEL INTERNATIONAL, INC. AND CONTROLLED ENTITIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

5. Property and equipment

Property and equipment consists of the following at September 30, 2014 and 2013:

	2014	2013
Leasehold Land	\$ 2,944,755	\$ 3,141,317
Less: accumulated amortization	<u>(240,413)</u>	<u>(151,287)</u>
	\$ <u>2,704,342</u>	\$ <u>2,990,030</u>
Building under construction	\$ 2,832,341	\$ 2,165,497
Plant and equipment	3,078,427	6,475,900
Furniture and fixtures	70,992	74,373
Vehicles	716,402	829,581
Leasehold Improvements	195,682	208,847
Office and computer equipment	<u>493,705</u>	<u>542,879</u>
	7,387,549	10,297,077
Less accumulated depreciation	<u>(1,446,000)</u>	<u>(3,158,468)</u>
	\$ <u>5,941,549</u>	\$ <u>7,138,609</u>
Net property and equipment	\$ <u><u>8,645,891</u></u>	\$ <u><u>10,128,639</u></u>

Depreciation and amortization expense for the years ended September 30, 2014 and 2013 was approximately \$1,715,000 and \$1,147,000, respectively. Impairment expense of property and equipment for September 30, 2014 was approximately \$ 288,000. At September 30, 2014 and 2013, property and equipment included approximately \$600,000 and \$1,163,000 and accumulated depreciation included approximately \$254,000 and \$454,000 related to assets acquired under notes payable, respectively. As at September 30, 2014 property and equipment balance was reduced by approximately \$ 587,000 due to the movement in exchange rates.

6. Notes Payable

Notes payable at September 30, 2014 and 2013 consist of the following:

	2014	2013
Note payable (a)	\$ -	\$ 12,625
Note payable (b)	4,293	14,937
Note payable (c)	-	12,845
Note payable (d)	-	4,373
Note payable (e)	63,245	151,365
Note payable (f)	64,367	94,885
Note payable (g)	<u>39,102</u>	<u>58,174</u>
	171,007	349,204
Less current portion	<u>110,429</u>	<u>166,692</u>
	\$ <u><u>60,578</u></u>	\$ <u><u>182,512</u></u>

- (a) The note is payable in monthly instalments of \$611 including interest at a rate of 8.39% per annum, with a balloon payment in October 2013. The note is collateralized by the underlying equipment.
- (b) The note is payable in monthly instalments of \$1,036 including interest at a rate of 8.55% per annum, with a final payment in February 2015. The note is collateralized by the underlying equipment.
- (c) The note is payable in monthly instalments of \$834 including interest at a rate of 8.95% per annum, with a final payment in November 2013. The note is collateralized by the underlying equipment.

ALLOY STEEL INTERNATIONAL, INC. AND CONTROLLED ENTITIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

6. Note payable (continued)

- (d) The note is payable in monthly instalments of \$4,873 including interest at a rate of 7.93% per annum, with a final payment in October 2013. The note is collateralized by the underlying equipment.
- (e) The note is payable in monthly instalments of \$8,585 including interest at a rate of 8.110% per annum, with a final payment in June 2015. The note is collateralized by the underlying equipment.
- (f) The note is payable in monthly instalments of \$2,954 including interest at a rate of 6.99% per annum, with a final payment in January 2017. The note is collateralized by the underlying equipment.
- (g) The note is payable in monthly instalments of \$1,863 including interest at a rate of 7.39% per annum, with a final payment in December 2016. The note is collateralized by the underlying equipment.

As of September 30, 2014, aggregate annual principal payments for each of the following years are as follows:

Year ending September 30,

2015	110,429
2016	46,058
2017	<u>14,520</u>
	\$ <u>171,007</u>

7. Income Taxes

Income (loss) before income tax expense (benefit) for the years ended September 30, 2014 and 2013 were derived in the following jurisdictions:

	2014	2013
		Re-stated
Australia	\$ 7,573,922	\$ 7,879,144
Mongolia	(10,577)	(3,520)
Indonesia	(272,839)	(202,525)
United States	<u>(746,799)</u>	<u>(673,721)</u>
	\$ <u>6,543,707</u>	\$ <u>6,999,378</u>

ALLOY STEEL INTERNATIONAL, INC. AND CONTROLLED ENTITIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

7. Income taxes (continued)

The components of the income tax expense (benefit) are as follows for the years ended September 30, 2014 and 2013:

	2014	2013
		Re-stated
Current		
Foreign	\$ 2,016,973	\$ 2,042,599
Deferred		
Foreign	39,119	53,444
	<u>\$ 2,056,092</u>	<u>\$ 2,096,043</u>

As of September 30, 2014, the Company had US net operating loss carry forwards of approximately \$2,270,950 expiring through 2034.

The components of the deferred tax assets and liabilities consist of the following at September 30, 2014 and 2013:

	2014	2013
		Re-stated
Deferred tax assets		
Net operating loss carry forwards	\$ 772,123	\$ 752,177
Timing differences	471,571	435,164
	<u>1,243,694</u>	<u>1,187,341</u>
Less valuation allowance	<u>(772,123)</u>	<u>(752,177)</u>
	471,571	435,164
Deferred tax liabilities		
Other	(330,547)	(245,083)
Deferred tax assets/(liabilities), net	<u>\$ 141,024</u>	<u>\$ 190,081</u>

The Company records a valuation allowance when it is more likely than not that some portion or all of the deferred income tax asset will not be realized. The change in the valuation allowance amounted to approximately \$18,000 and \$46,000 for the years ended September 30, 2014 and 2013, respectively. The ultimate realization of this deferred income tax asset depends on the Company's ability to generate sufficient taxable income in future years in the United States of America.

The Company also has certain foreign tax credits available for future use.

The effective tax rate in 2014 and 2013 differs from the U.S. federal statutory rate as follows:

	2014	2013
		Re-stated
U.S. federal statutory rate	34%	34%
Change in valuation allowance	0%	(1)%
(Benefit) of lower foreign effective tax rate	<u>(3)%</u>	<u>(3)%</u>
Effective tax rate	<u>31%</u>	<u>30%</u>

The Company has considered its income tax positions, including any positions that may be considered uncertain by the relevant tax authorities in the jurisdictions in which the Company operates. As of September 30, 2014 and 2013, the Company had no uncertain tax positions. The following table summarizes tax years that remain subject to examination by major tax jurisdictions:

Jurisdiction	Open Years
United States	2011-2014
Australia	2010-2014

ALLOY STEEL INTERNATIONAL, INC. AND CONTROLLED ENTITIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

8. Prior period adjustment

Subsequent to the end of 2013 financial year, a customer achieved offtake milestones that qualified it for an annual volume rebate payable following the anniversary of a supply contract on March 26, 2014. The portion of the annual volume relate to sales up to September 30, 2013 has now been recognised as a prior year adjustment.

The effect of recognising this rebate is a reduction in net income of \$ 546,734 for the financial year ended September 30, 2013 with a corresponding reduction in net assets. Basic and diluted income per common share has been reduced from 32¢ to 28¢.

9. Commitments and contingencies

Operating Lease

The Company leases its office and manufacturing space from a related party for approximately \$932,000 for the year ended September 30, 2014 plus certain expenses (as defined in the agreement). The Company entered in to a new lease agreement on March 01, 2014 for a five year term with the option of renewing for a further nine years. Rent expense for the years ended September 30, 2014 and 2013 was approximately \$932,000 and \$710,000 respectively.

Building Construction

The Company entered into an agreement with PT Bimo Prasetyo through its Indonesian subsidiary PT Alloy Manufacturing Indonesia for the construction of a building. The contract value for the building was 35,600,000,000 Indonesian Rupiah (IRP) (approximately US \$ 2,926,000). The construction of the building is currently in progress. Payments of IRP 20,186,000,000 (approximately US\$ 1,657,000) have been made to balance date. Further payments of IRP 15,414,000,000 (approximately US\$ 1,269,000) remain outstanding at balance date. This amount would be invoiced progressively subject to satisfactory completion of each stage.

Royalty Agreements

Under the terms of the royalty agreement, the Company is required to pay royalties of 6% (2013 – 6%) on the net sales of Arcoplate products, calculated monthly. The agreement has a five-year term and renewal options to extend. At September 30, 2014 and 2013, approximately \$121,000 and \$168,000 respectively, was payable under this agreement. The royalty expense was approximately \$1,618,000 and \$1,552,000 for the years ended September 30, 2014 and 2013, respectively.

ALLOY STEEL INTERNATIONAL, INC. AND CONTROLLED ENTITIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

10. Major customers, suppliers and geographic information

The Company had revenues from four customers for the year ended September 30, 2014 and four customers for the year ended September 30, 2013 of approximately \$17,252,103 and \$16,878,726 respectively. Accounts receivable due from the respective customers were approximately \$1,902,214 and \$2,027,400 at September 30, 2014 and 2013.

	2014
	Revenue
Customer A	36%
Customer B	16%
Customer C	6%
Customer D	5%

	2013
	Revenue
Customer A	40 %
Customer B	12 %
Customer C	4 %
Customer D	4 %

For the years ended September 30, 2014 and 2013, the Company purchased approximately 41% and 20% of its inventories from two suppliers, respectively.

For the years ended September 30, 2014 and 2013, revenues were derived from the following:

	2014	2013
Australia	79%	83%
Americas	9%	13%
Other	12%	4%
	<u>100%</u>	<u>100%</u>

Revenue is attributed to each country based on the location of the customer.

11. Subsequent Events

Management has performed a review of subsequent events through to December 19, 2014, the date the financial statements were available to be issued. No events requiring disclosure were noted.