

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

ANNUAL FINANCIAL STATEMENTS

SEPTEMBER 30, 2011

ALLOY STEEL INTERNATIONAL, INC. AND CONTROLLED ENTITIES

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Report of Independent Auditors

To the Board of Directors and Stockholders of Alloy Steel International, Inc.

We have audited the accompanying consolidated balance sheets of Alloy Steel International, Inc. and Controlled Entities (“the Group”) as of September 30, 2011 and 2010, and the related consolidated statements of operations, stockholders’ equity and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Company’s management. Our responsibility is to express an opinion on these consolidated 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 consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated 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, 2011 and 2010, and the results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.


/s/ UHY Haines Norton
Chartered Accountants

Perth, Australia
December 22, 2011

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ALLOY STEEL INTERNATIONAL, INC. AND CONTROLLED ENTITIES
CONSOLIDATED BALANCE SHEETS
September 30, 2011 and 2010

September - 11 September - 10

	ASSETS	Note		
CURRENT ASSETS				
Cash and cash equivalents			\$3,259,820	\$ 3,504,350
Accounts receivable, less allowance for doubtful accounts of \$nil at September, 2011 and September 30, 2010			2,389,731	5,597,253
Inventories		3	5,187,261	3,287,138
Prepaid expenses and other current assets			152,846	90,998
TOTAL CURRENT ASSETS			10,989,658	12,479,739
PROPERTY AND EQUIPMENT, net		4	8,239,853	6,558,410
OTHER ASSETS				
Investments		5	-	75,493
Deferred tax asset		7	348,049	332,113
Other assets			17,863	17,863
Total other assets			365,912	425,469
TOTAL ASSETS			\$19,595,423	\$ 19,463,618
 LIABILITIES AND STOCKHOLDERS' EQUITY 				
CURRENT LIABILITIES				
Notes payable, current portion		6	\$ 224,157	\$ 217,553
Royalties payable, related party			128,998	1,148,335
Current tax payable			788,358	1,981,375
Accounts payable			2,784,226	2,311,855
Other current liabilities			643,149	1,122,891
TOTAL CURRENT LIABILITIES			4,568,888	6,782,009
LONG-TERM LIABILITIES				
Notes payable, less current portion		6	363,901	581,492
Notes payable, officers			-	255
Deferred tax liabilities		7	219,485	189,026
TOTAL LONG-TERM LIABILITIES			583,386	770,773
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	1,767,512
Retained earnings			10,144,416	7,704,279
Accumulated other comprehensive income			2,377,915	2,272,956
Total Alloy Steel International, Inc. Shareholders equity			14,465,213	11,918,247
Non controlling interest			(22,064)	(7,411)
TOTAL STOCKHOLDERS' EQUITY			14,443,149	11,910,836
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY			19,595,423	19,463,618

ALLOY STEEL INTERNATIONAL, INC. AND CONTROLLED ENTITIES
CONSOLIDATED STATEMENTS OF OPERATIONS
Years Ended September 30, 2011 and 2010

	Sep-11	Sep-10
Sales	\$ 21,977,139	\$ 24,544,217
Cost of Sales	<u>(13,429,238)</u>	<u>(11,470,524)</u>
Gross Profit	8,547,901	13,073,693
Operating Expenses		
Selling, general and administrative Expenses	<u>(5,461,682)</u>	<u>(5,634,490)</u>
Profit (Loss) From Operations	<u>3,086,219</u>	<u>7,439,203</u>
Other Income (Expense)		
Interest income	95,670	39,125
Interest expense	(59,378)	(74,123)
Dividend income	-	8,637
Insurance recovery	-	13,927
Sundry income	115,254	21,975
Realised foreign exchange profit (loss)	(255,596)	84,379
Unrealised foreign exchange profit (loss)	<u>277,338</u>	<u>(160,821)</u>
	<u>173,288</u>	<u>(66,901)</u>
Income (Loss) Before Income Tax (Expense) Benefit	3,259,507	7,372,302
Income tax (expense) benefit	<u>(834,022)</u>	<u>(2,501,943)</u>
Net Income (Loss)	2,425,485	4,870,359
Net (income) loss attributable to non-controlling interests	<u>14,653</u>	<u>3,199</u>
Net Income (Loss) Attributable to Alloy Steel International, Inc.	<u>\$2,440,138</u>	<u>\$ 4,873,558</u>
Basic Income (Loss) and Diluted Income (Loss) per Common Share	<u>\$ 0.14</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 STOCKHOLDERS EQUITY
Years Ended September 30, 2011 and 2010

	Common Stock		Capital in excess of par value	Retained Earnings	Accumulated Other Comprehensive Income	Non Controlling Interests	Total Stockholders' Equity	Comprehensive Income
	Shares	Amount						
Balances, September 30, 2009	17,350,000	173,500	1,767,512	2,830,721	931,743	(4,212)	5,699,264	
Net Income attributable to stockholders				4,873,558		(3,199)	4,870,359	4,870,359
Other comprehensive income, Foreign currency translation adjustment					1,341,213		1,341,213	1,341,213
Fair value adjustment for available for sale assets								(10,660)
Total comprehensive income Year ended September 30, 2011								<u>6,200,912</u>
Balances, September 30, 2010	17,350,000	173,500	1,767,512	7,704,279	2,272,956	(7,411)	11,910,836	
Correction to the reduction in Capital on incorporation of subsidiaries			1,870				1,870	
Net Income attributable to stockholders				2,440,138		(14,653)	2,425,485	2,425,485
Other comprehensive income, Foreign currency translation adjustment					104,958		104,958	104,958
Total comprehensive income – Year ended September 30, 2011								<u>2,530,443</u>
Balances, September 30, 2011	17,350,000	173,500	1,769,382	10,144,417	2,377,914	(22,064)	14,443,149	

ALLOY STEEL INTERNATIONAL, INC. AND CONTROLLED ENTITIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
Years Ended September 30, 2011 and 2010

	Sep-11	Sep-10
Cash flows from operating activities		
Net income (loss)	\$ 2,425,485	\$ 4,873,558
<i>Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:</i>		
Depreciation	888,476	338,996
Impairment of shares	(10,945)	(21,196)
Dividends reinvested directly to investments	-	(6,915)
Provision for loan	164,782	366,595
Profit/Loss on sale of plant and equipment	(588)	43,299
Profit on sale of listed financial assets	(3,995)	-
Loss attributable to non controlling interests	(14,652)	(3,199)
Other non cash Items	1,870	-
<i>Increase (decrease) in cash and cash equivalents attributable to changes in operating assets and liabilities:</i>		
Accounts receivable	1,680,956	(1,312,584)
Inventories	(1,847,553)	(717,235)
Prepaid expenses and other current assets	(63,970)	(14,045)
Accounts payable and other current liabilities	651,556	2,913,317
Income taxes payable	(1,254,132)	(1,068,991)
Net Cash Provided by (Used in) Operating Activities	2,617,290	5,391,600
Cash Flows From Investing Activities		
Purchase of property, plant and equipment	(2,581,685)	(3,221,745)
Proceeds on sale of property, plant and equipment	1,027	13,230
Proceeds of sale of listed financial assets	94,858	161,993
Net Cash Provided by (Used in) Investing Activities	(2,485,800)	(3,046,522)
Cash Flows From Financing Activities		
Loans to Companies	(180,933)	(398,199)
Proceeds from new notes and loans payable	-	702,424
Repayments on notes and loans payable	(229,018)	(149,691)
Net Cash Provided by (Used in) Financing Activities	(409,951)	154,534
Effect of Foreign Exchange Rate Changes on Cash and Cash Equivalents	33,931	580,648
Net Increase (Decrease) in Cash and Cash Equivalents	(244,530)	3,080,260
Cash and Cash Equivalents at Beginning of Period	3,504,350	424,090
Cash and Cash Equivalents at End of Period	\$3,259,820	\$ 3,504,350
Supplemental disclosures of cash flow information,		
Cash paid during the year for:		
Income taxes	\$ 1,254,132	\$ 1,068,991
Interest	\$59,378	\$ 43,289
Supplemental disclosures of non-cash investing and financing activities,		
Equipment acquired under notes payable	-	\$ 702,424

ALLOY STEEL INTERNATIONAL, INC. AND CONTROLLED ENTITIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Nature of operations

Alloy Steel International, Inc. (ASII), its wholly-owned subsidiary, Alloy Steel Australia (Int.) Pty Limited (ASAI) and its wholly owned entity PT Alloy Manufacturing Indonesia (PTAM), wholly owned subsidiaries Mossville Securities LLC and Alloy Steel North America LLC (ASNA) 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*™, 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 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 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. No impairment losses on long lived assets were recorded in 2011 and 2010.

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	5-20 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 \$51,981 and \$46,000 for the years ended September 30, 2011 and 2010, 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 (Loss) Per Common Share

Basic income (loss) per share excludes dilution and is computed by dividing net income (loss) 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 (loss) per common share was the same as basic income (loss) 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. Inventories

Inventories consist of the following at September 30, 2011 and 2010:

	2011	2010
Raw materials	\$ 1,276,612	\$ 1,247,790
Work in progress	1,207,823	393,791
Finished goods	2,702,826	1,645,557
	<u>\$ 5,187,261</u>	<u>\$ 3,287,138</u>

4. Property and equipment

Property and equipment consists of the following at September 30, 2011 and 2010:

	2011	2010
Leasehold Land	\$ 23,123	\$ 23,123
Less accumulated amortization	6,978	5,435
	<u>\$ 16,145</u>	<u>17,688</u>
Deposit on land	\$ 3,144,534	1,663,135
Plant and equipment	\$ 6,911,177	\$ 6,046,530
Furniture and fixtures	80,187	49,526
Vehicles	593,466	423,075
Leasehold Improvements	121,359	37,193
Office and computer equipment	128,171	212,809
	<u>7,834,360</u>	<u>6,769,133</u>
Less accumulated depreciation	2,755,187	1,891,545
	<u>\$ 5,079,173</u>	<u>\$ 4,877,588</u>
Net property and equipment	<u>\$ 8,239,853</u>	<u>\$ 6,558,410</u>

ALLOY STEEL INTERNATIONAL, INC. AND CONTROLLED ENTITIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

4. Property and equipment (continued)

Depreciation and amortization expense for the years ended September 30, 2011 and 2010 was approximately \$888,000 and \$339,000, respectively. At September 30, 2011 and 2010, property and equipment included approximately \$1,163,000 and \$1,163,000 and accumulated depreciation included approximately \$427,000 and \$229,000 related to assets acquired under notes payable, respectively.

5. Investments

The company holds investments in marketable securities as of September 30, 2011 and 2010 as follows:

	2011	2010
Non-current assets –Investment in Common Stock	\$ -	\$75,493

The Company determines the fair value of assets and liabilities using a fair value hierarchy with the highest priority being quoted prices in active markets. The marketable securities are common stocks. Hierarchical levels, which are directly related to the amount of subjectivity associated with the inputs to fair valuation of these assets and liabilities, are as follows:

Level 1 — Inputs were unadjusted, quoted prices in active markets for identical assets or liabilities at the measurement date.

Level 2 — Inputs (other than quoted prices included in Level 1) were either directly or indirectly observable for the asset or liability through correlation with market data at the measurement date and for the duration of the instrument’s anticipated life.

Level 3 — Inputs reflected management’s best estimate of what market participants would use in pricing the asset or liability at the measurement date. Consideration was given to the risk inherent in the valuation technique and the risk inherent in the inputs to the model.

Determining which hierarchical level an asset or liability falls within requires significant judgment. The Company evaluates its hierarchy disclosures each quarter. The following table summarizes the financial instruments measured at fair value in the Consolidated Balance Sheet as of September 30, 2011 and September 30, 2010:

	Fair Value Measurements			
	Level 1	Level 2	Level 3	Total
Marketable Securities Long term - 2011	-	-	-	-
Marketable Securities Long term - 2010	\$75,493	-	-	\$75,493

ALLOY STEEL INTERNATIONAL, INC. AND CONTROLLED ENTITIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

6. Notes Payable

Notes payable at September 30, 2011 and 2010 consists of the following:

	2011		2010	
Note payable (a)	\$	-	\$	48,275
Note payable (b)		22,103		32,289
Note payable (c)		56,608		78,309
Note payable (d)		23,965		28,436
Note payable (e)		34,886		42,919
Note payable (f)		28,671		34,974
Note payable (g)		106,325		150,074
Note payable (h)		315,500		383,769
		588,058		799,045
Less current portion		224,157		217,553
	\$	363,901	\$	581,492

- (a) The note is payable in monthly instalments of \$4,420 including interest at a rate of 7.25% per annum, with a final balloon payment in November 2010. The note is collateralized by the underlying equipment and is guaranteed by the officers of the Company.
- (b) The note is payable in monthly instalments of \$962 including interest at a rate of 9.22% per annum, with a final balloon payment in March 2012. The note is collateralized by the underlying equipment and is guaranteed by the officers of the Company.
- (c) The note is payable in monthly instalments of \$2,226 including interest at a rate of 9.65% per annum, with a balloon payment in June 2012. The note is collateralized by the underlying equipment and is guaranteed by the officers of the company.
- (d) The note is payable in monthly instalments of \$571 including interest at a rate of 8.39% per annum, with a final payment in October 2013. The note is collateralized by the underlying equipment and is guaranteed by the officers of the company.
- (e) The note is payable in monthly instalments of \$968 including interest at a rate of 8.55% per annum, with a final payment in March 2015. The note is collateralized by the underlying equipment and is guaranteed by the officers of the company.
- (f) The note is payable in monthly instalments of \$780 including interest at a rate of 8.95% per annum, with a final payment in December 2013. The note is collateralized by the underlying equipment and is guaranteed by the officers of the company.
- (g) The note is payable in monthly instalments of \$4,556 including interest at a rate of 7.93% per annum, with a final payment in December 2013. The note is collateralized by the underlying equipment and is guaranteed by the officers of the company.

ALLOY STEEL INTERNATIONAL, INC. AND CONTROLLED ENTITIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

6. Notes Payable (continued)

(h) The note is payable in monthly instalments of \$8,025 including interest at a rate of 8.11% per annum, with a final payment in July 2015. The note is collateralized by the underlying equipment and is guaranteed by the officers of the company.

As of September 30, 2011, aggregate annual principal payments for each of the following years are as follows:

Year ending September 30,	
2012	224,155
2013	170,943
2014	124,845
2015	68,115
	\$ 588,058

7. Income taxes

Income (loss) before income tax expense (benefit) for the years ended September 30, 2011 and 2010 were derived in the following jurisdictions:

	2011	2010
Australia	\$ 2,776,876	\$8,328,979
Mongolia	(36,630)	(7,996)
Indonesia	(26,922)	(8,438)
United States	546,183	(940,243)
	\$ 3,259,507	\$7,372,302

The components of income tax expense (benefit) are as follows for the years ended September 30, 2011 and 2010:

	2011	2010
Current		
Foreign	\$ 817,400	\$2,844,903
Deferred		
Foreign	16,622	(342,960)
	\$ 834,022	\$2,501,943

As of September 30, 2011, the Company had US net operating loss carry forwards of approximately \$2,027,151 expiring through 2025.

The components of the deferred tax assets and liabilities consist of the following at September 30, 2011 and 2010:

ALLOY STEEL INTERNATIONAL, INC. AND CONTROLLED ENTITIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

7. Income taxes (continued)

	2011	2010
Deferred tax assets		
Net operating loss carry forwards	\$709,503	\$991,421
Timing differences	348,049	332,113
	1,057,552	1,323,533
Less valuation allowance	(709,503)	(991,421)
	348,049	332,113
Deferred tax liabilities		
Other	(219,485)	(189,026)
Deferred tax assets (liabilities), net	<u>\$128,564</u>	<u>\$143,087</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 \$282,000 and \$196,000 for the years ended September 30, 2011 and 2010, 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 2011 and 2010 differs from the U.S. federal statutory rate as follows:

	2011	2010
U.S. federal statutory rate	34%	35%
Change in valuation allowance	9%	5%
Benefit of lower foreign effective tax rate/Other	(17)%	(6)%
Effective tax rate	<u>26%</u>	<u>34%</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, 2011 and 2010, the Company had no uncertain tax positions and no unrecognized tax benefits. The Company has yet to incur any penalties relating to income taxes recognized in the consolidated financial statements as of and for the years ended September 30, 2011 and 2010. However the Company has accrued penalties of \$ 120,000 for late lodgement of previous tax returns. The following table summarizes tax years that remain subject to examination by major tax jurisdictions:

Jurisdiction	Open Years
United States	2006-2011
Australia	2006-2011

8. Stock options

During 2000, the Company's Board of Directors (the Board) adopted, and the stockholders approved, the 2000 stock option plan (the Plan) pursuant to which 2,000,000 shares of common stock were reserved for issuance upon the exercise of options granted to key employees, members of the Board and consultants of the Company. Options under the Plan may be incentive stock options, nonqualified stock options, or any combination thereof, and the Board may grant options at an exercise price which is not less than the fair market value on the date such options are granted.

ALLOY STEEL INTERNATIONAL, INC. AND CONTROLLED ENTITIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

8. Stock Options (continued)

The Plan further provides that the maximum period in which stock options may be exercised will be determined by the Board, except that they may not be exercisable after ten years from the date of grant or five years from the date of grant for any person owning more than ten percent of the voting power of all classes of the Company's stock. For the years ending September 30, 2011 and 2010, there were no stock options granted or outstanding stock options.

9. Commitments and contingencies

Operating Lease

The Company leases its office and manufacturing space from a related party for approximately \$553,000 for the year ended September 30, 2012 plus certain expenses (as defined in the agreement). The lease expired on June 30, 2010, however the lease continues on a month-to-month basis due to the possibility of expansion plans.

Rent expense for the years ended September 30, 2011 and 2010 was approximately \$333,000 and \$177,000 respectively.

Land Acquisition

The Company entered an agreement with PT Krakatau Industrial Estate Cilegon whereby the Company, through a subsidiary now incorporated in Indonesia, PT Alloy Manufacturing Indonesia, agreed to take delivery and have use of an area of 36,700 square meters of land for the purposes of constructing a factory for the manufacture of Arcoplate products. The contract price was for 25,850,000,000 Indonesian Rupiah (US \$ 2,843,500) for which payment has been completed. We await issue of the land title currently expected in early 2012.

Subject to the Company being issued with the necessary permits, the agreement provides that the Company will construct its factory within 24 months of completing the payment for the land.

Also, if all conditions are met, the Company will have the right to occupy the land for a period of 30 years, with further extensions of 20 years and 30 years upon expiry of each term available upon payment of any required fee applicable at the time of the extension.

Royalty Agreements

The Company has a licensing agreement with a related party which relates to the sale of all products sold. Under the terms of the agreement, the Company is required to pay royalties of 2% on the net sales of these products, calculated monthly. The agreement expires in 2025 and has three ten-year renewal options to extend unless written notice of non-renewal is given by either party within 120 days prior to its expiration. At September 30, 2011 and 2010, approximately \$129,000 and \$1,148,000 respectively, was payable under this agreement and is included in accounts payable and other current liabilities.

Royalty expense was approximately \$424,000 and \$479,000 for the years ended September 30, 2011 and 2010, respectively.

Employment Agreements

The Company is negotiating an employment agreement with its CEO, who is a principal stockholder. Approximately \$285,000 and \$175,000 has been expensed under these agreements in each of the years ended September 30, 2011 and 2010 respectively, and is included in selling, general and administrative expenses.

ALLOY STEEL INTERNATIONAL, INC. AND CONTROLLED ENTITIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

9. Commitments and contingencies (continued)

Contingencies

- a) The Company is considering its position in relation to the supply of certain equipment which was eventually discovered not to operate within the required specifications. This was determined after a number of months of operation of the new equipment. The Company can make no reasonable estimation as to any costs recovered as yet.
- b) The Company is considering its position in relation to the payment of invoices for services provided. The Company can make no reasonable estimation of the amounts involved and will continue to defend its position. The loss that is reasonably possible is \$ 200,000 excluding costs.

10. Major customers, suppliers and geographic information

The Company had revenues from four customers for the year ended September 30, 2011 and four customers for the year ended September 30, 2010 of approximately \$9,660,294 and \$11,532,000 respectively. Accounts receivable due from the respective customers were approximately \$465,000 and \$3,056,000 at September 30, 2011 and 2010.

	2011
Customer A	18 %
Customer B	15 %
Customer C	6 %
Customer D	6 %

	2010
Customer A	22.69 %
Customer B	0.00 %
Customer C	14.00 %
Customer D	10.31 %

For the years ended September 30, 2011 and 2010, the Company purchased approximately 75% and 56% of its inventories from two suppliers, respectively.

For the years ended September 30, 2011 and 2010, revenues were derived from the following:

	2011		2010
Australia	56 %		72 %
Americas	24 %		15 %
Other	20 %		13 %
	<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 21, 2011, which is the date the financial statements were available to be issued. There are no material subsequent events.