ALLOY STEEL INTERNATIONAL, INC.
AND CONTROLLED ENTITIES

ANNUAL FINANCIAL STATEMENTS

SEPTEMBER 30, 2016

ALLOY STEEL INTERNATIONAL, INC. AND CONTROLLED ENTITIES

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

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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 consolidated financial statements of Alloy Steel International, Inc. and Controlled Entities (the "Company"), which comprise the consolidated balance sheets as of September 30, 2016 and 2015, and the consolidated related statements of income, retained earnings, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for The Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated 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 consolidated 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 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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated 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 entity'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 consolidated 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, consolidated 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, 2016 and 2015, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Moore Stephens
/s/ Moore Stephens
Chartered Accountants

Perth, Australia
23 December 2016

ALLOY STEEL INTERNATIONAL, INC. AND CONTROLLED ENTITIES
CONSOLIDATED BALANCE SHEETS
September 30, 2016 and 2015

	Note	Sep - 16	Sep – 15
ASSETS			
CURRENT ASSETS			
Cash and cash equivalents	3	14,317,327	12,025,603
Accounts receivable, less allowance for doubtful accounts of $57,394 at September 30, 2016 and $nil at September 2015		2,660,879	3,023,770
Inventories	4	2,893,683	4,440,622
Prepaid expenses and other current assets		718,267	364,730
Land and building held for sale	5	4,000,000	4,000,000
TOTAL CURRENT ASSETS		24,590,156	23,854,725
PROPERTY AND EQUIPMENT, net	6	1,873,163	2,087,358
OTHER ASSETS			
Deferred tax asset	8	219,231	451,149
Other assets		-	17,863
Total other assets		219,231	469,012
TOTAL ASSETS		26,682,550	26,411,095
LIABILITIES AND STOCKHOLDERS' EQUITY			
CURRENT LIABILITIES			
Notes payable, current portion	7	12,698	36,825
Accounts payable		628,073	1,136,234
Royalties payable, related party		126,231	121,432
Current tax payable		-	1,082,527
Accrued payroll and related costs		495,673	435,789
Other accrued liabilities		26,336	24,079
TOTAL CURRENT LIABILITIES		1,289,011	2,836,886
LONG-TERM LIABILITIES			
Notes payable, less current portion	7	-	11,609
Deferred tax liabilities	8	166,915	192,622
Other liabilities		46,269	36,833
TOTAL LONG-TERM LIABILITIES		213,184	241,064
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;17,042,000 and 17,350,000 issued and outstanding at September 30, 2016 and 2015 respectively		170,420	173,500
Capital in excess of par value		1,769,382	1,769,382
Retained earnings		27,980,975	28,348,432
Accumulated other comprehensive income (loss)		(4,740,422)	(6,923,649)
Total Alloy Steel International, Inc. stockholders' equity		25,180,355	23,367,665
Non controlling interest		-	(34,520)
TOTAL STOCKHOLDERS' EQUITY		25,180,355	23,333,145
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY		26,682,550	26, 411,095

ALLOY STEEL INTERNATIONAL, INC. AND CONTROLLED ENTITIES
CONSOLIDATED STATEMENTS OF OPERATIONS
Years Ended September 30, 2016 and 2015

	Sep-16	Sep-15
Sales	17,124,726	24,134,703
Cost of Sales	(11,171,535)	(12,708,020)
Gross Profit	5,953,191	11,426,683
Operating Expenses		
Selling, general and administrative expenses	(4,795,733)	(5,172,346)
Impairment	(283,248)	(813,521)
Profit (Loss) From Operations	874,210	5,440,816
Other Income		
Interest income	107,076	135,588
Interest expense	(2,150)	(6,754)
Sundry income	194,165	352,960
Realised foreign exchange profit (loss)	123,702	1,402,283
Unrealised foreign exchange profit (loss)	(655,666)	620,119
	(232,873)	2,504,196
Income Before Income Tax (Expense)	641,337	7,945,012
Income tax (expense)	(1,008,794)	(2,641,256)
Net Income (Loss)	(367,457)	5,303,756
Net loss attributable to non-controlling interest	-	3,450
Net Income (Loss) Attributable to Alloy Steel International, Inc.	(367,457)	5,307,206
Basic and Diluted Income (Loss) per Common Share	(0.02)	0.31
Weighted Average Common Shares Used in computing basic and diluted income per share	17,042,000	17,350,000

ALLOY STEEL INTERNATIONAL INC. AND CONTROLLED ENTITIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
Years Ended September 30, 2016 and 2015

		Sep-16		Sep-15
Net Income (Loss)	$	(367,457)	$	5,303,756
Other Comprehensive Income (Loss)				
Foreign currency translation adjustment		2,183,227		(5,941,054)
Total Other Comprehensive Income (Loss)		2,183,227		(5,941,054)
Total Comprehensive Income (Loss)	$	1,815,770	$	(637,298)
Total comprehensive income (loss) attributable to:				
Stockholders of Alloy Steel International, Inc	$	1,815,770	$	(637,298)
Non-controlling interest		-		(3,450)
	$	1,815,770	$	(640,748)

ALLOY STEEL INTERNATIONAL, INC. AND CONTROLLED ENTITIES
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
Years Ended September 30, 2016 and 2015

	Common Stock		Capital in Excess of Par Value	Retained Earnings	Accumulated Other Comprehensive Income	Non Controlling Interest	Total Stockholders' Equity
	Shares	Amount					
Balances, October 1, 2014	17,350,000	$173,500	$1,769,382	$23,041,226	$(982,595)	$(31,070)	$23,970,443
Net Income attributable to stockholders	-	-	-	5,307,206	-	(3,450)	5,303,756
Other comprehensive income	-	-	-	-	(5,941,054)	-	(5,941,054)
Balances, September 30, 2015	17,350,000	$173,500	$1,769,382	$28,348,432	$(6,923,649)	$(34,520)	$23,333,145
Net Income attributable to stockholders	-	-	-	(367,457)	-	34,520	(332,937)
Other comprehensive income	-	-	-	-	2,183,227	-	2,183,227
Cancellation of shares	(308,000)	(3,080)	-	-	-	-	(3,080)
Balances, September 30, 2016	17,042,000	$170,420	$1,769,382	$27,980,975	$(4,740,422)	$ -	$25,180,355

ALLOY STEEL INTERNATIONAL, INC. AND CONTROLLED ENTITIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
Years Ended September 30, 2016 and 2015

	Sep-16	Sep-15
Cash Flows From Operating Activities		
Net income	$ (367,457)	$ 5,303,756
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortisation	593,261	587,576
Impairment	283,798	813,521
(Profit)/Loss on sale of plant and equipment	(45,497)	(90,835)
Loss attributable to non controlling interest	-	(3,450)
(Profit)/Loss on liquidation of subsidiary	23,862	-
Cancellation of shares	(3,080)	-
Increase (decrease) in cash and cash equivalents attributable to changes in operating assets and liabilities:		
Accounts receivable	1,511,870	4,224,459
Inventories	1,741,625	1,093,357
Prepaid expenses and other current assets	(107,857)	(29,629)
Accounts payable and other current liabilities	(1,384,687)	(4,844,004)
Income taxes payable	(1,123,754)	649,973
Net Cash Provided by Operating Activities	1,122,084	7,704,724
Cash Flows From Investing Activities		
Purchase of property, plant and equipment	(134,572)	(438,790)
Proceeds on sale of property, plant and equipment	47,722	115,529
Loans to companies	(22,411)	(503,233)
Net Cash (Used in) Investing Activities	(109,261)	(826,494)
Cash Flows From Financing Activities		
Repayments on notes and loans payable	(38,895)	(99,557)
Net Cash (Used in) Financing Activities	(38,895)	(99,557)
Effect of Foreign Exchange Rate Changes on Cash and Cash Equivalents	1,317,796	(2,473,118)
Net Increase (Decrease) in Cash and Cash Equivalents	2,291,724	4,305,555
Cash and Cash Equivalents at Beginning of Period	12,025,603	7,720,048
Cash and Cash Equivalents at End of Period	$ 14,317,327	$ 12,025,603

Supplemental disclosures of cash flow information,
Cash paid during the year for:

Income taxes	$ 2,132,547	$ 2,003,079
Interest	$ 2,150	$ 6,754

ALLOY STEEL INTERNATIONAL, INC. AND CONTROLLED ENTITIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Nature of operations

Alloy Steel International, Inc. (AYSI), its 100% owned 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) (collectively the "Company") manufacture and distribute Arcoplate, a wear-resistant fused-alloy steel plate, to customers throughout the world. During the financial year the majority owned subsidiary Alloy Steel Mongolia LLC (ASM) was wound up due to lack of activity.

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.

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

Principles of Consolidation

The consolidated financial statements include the accounts of AYSI, ASAI, PTAM, ASNA, and TA. 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 initial 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, Company has recognised an allowance for doubtful debts amounting to $57,394 for the year ended September 30, 2016 and was nil for the year ended September 30, 2015. 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.

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 $294,000 was recognised on long lived assets during the financial year ended September 30, 2016 and $453,000 during the year ended September 30, 2015.

An impairment charge of $293,000 and $360,000 in respect of the building under construction in Company's Indonesian subsidiary has been recognised during the years ended September 30, 2016 and 2015 respectively. The Board is confident that this impairment charge, which has been based on an assessment of the fair value is sufficient to cover any future losses arising from the Group's Indonesian activities.

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 $52,516 and $35,751 for the years ended September 30, 2016 and 2015, 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.

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. Share capital and retained earnings are translated at historical rates. 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.

The functional currencies of each of the entities are

- Alloy Steel International Inc – US Dollars
- Alloy Steel Australia (Int) Pty Ltd – Australian Dollars
- PT Alloy Manufacturing Indonesia – Australian Dollars
- Alloy Steel North America LLC – US Dollars
- Team Arcoplate LLC – US Dollars

The consolidated group maintains cash balances at several financial institutions located within Australia and North America. The total of all accounts at each institution is insured up to $250,000 at 30 September 2016 and $250,000 at 30 September 2015. The group's uninsured cash balance at 30 September 2016 was approximately $14,013,000 and $11,697,000 at 30 September 2015.

2. Summary of significant accounting policies (continued)

In March 2013, the FASB issued guidance to address the accounting for the cumulative translation adjustment when a parent entity sells or transfers either a subsidiary or a group of assets within a foreign entity. The guidance was effective for the Company beginning the first quarter of fiscal 2015 and was applied prospectively. The adoption of this guidance did not have a significant impact on our consolidated financial position, results of operations, or cash flows.

3. Cash and cash equivalents		2016		2015
Cash at bank	$	14,317,327	$	12,025,603
	$	14,317,327	$	12,025,603

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	$	14,317,327	$	12,025,603
	$	14,317,327	$	12,025,603

Currency Risk

Cash balances are held in the following denominations.

US Dollars
Australian Dollars
Mongolian Tugrik
European Union Euros

The US Dollar value of local currency balances were as follows

		2016		2015
Australian Dollars	$	9,293,301	$	6,764,473
Mongolian Tugrik		-		10,560
European Union Euros		50		51
	$	9,293,351	$	6,775,084

Exposure to currency risk may result in the fair value of future cash flows of cash fluctuating due to movement in foreign exchange rates of currencies in which the group hold which are in currencies other than USD.

4. Inventories

Inventories consist of the following at September 30, 2016 and 2015:

		2016		2015
Raw materials	$	1,654,153	$	1,440,586
Work in progress		130,002		452,219
Finished goods		1,109,528		2,547,817
	$	2,893,683	$	4,440,622

During last quarter of 2016 financial year Company conducted a comprehensive review of its product costings and incorporated those new costings in valuing its finished goods and work in progress. As a result there was a substantial increase to cost of goods sold during this period.

5. Land and building held for sale

		2016		2015
Leasehold Land	$	2,554,961	$	2,359,090
Less: accumulated amortization		(360,759)		(278,282)
	$	2,194,202	$	2,080,808
Building under construction	$	2,340,033	$	2,279,586
Less: accumulated impairment		(534,235)		(360,394)
	$	1,805,798	$	1,919,192
		4,000,000		4,000,000

During the financial year 2015 the Board made a decision to sell the land and buildings of the Indonesian Subsidiary. The property is currently on market and accordingly it was reclassified as a current asset.
Management consider Net Realisable Value of the land and buildings to be $4,000,000 and have recognised an impairment charge of $293,320 during 2016 financial year and 360,394 during 2015 financial year in respect of land and buildings in the Company's Indonesian subsidiary.

Reconciliation of the movement of land and building at September 30, 2016 and 2015

		2016		2015
Opening balance	$	4,000,000	$	5,536,683
Additions during the year		-		15,011
Amortisation of land during the year		(78,876)		(74,679)
Impairment		(293,320)		(360,394)
Exchange differences		372,196		(1,116,621)
Closing balance	$	4,000,000	$	4,000,000

6. Property and equipment

Property and equipment consists of the following at September 30, 2016 and 2015:

		2016		2015
Plant and equipment		2,697,441		2,414,373
Furniture and fixtures		74,322		58,813
Vehicles		661,524		621,604
Leasehold Improvements		207,535		174,190
Office and computer equipment		492,288		403,187
		4,133,110		3,672,167
Less accumulated depreciation		(2,259,947)		(1,584,809)
	$	1,873,163	$	2,087,358
Net property and equipment	$	1,873,163	$	2,087,358

Depreciation and amortization expense for the years ended September 30, 2016 and 2015 was approximately $514,000 and $587,000 respectively. The impairment expense of property and equipment for the year ended September 30, 2016 was approximately $1,000 and was approximately $453,000 for the year ended September 30, 2015.
At September 30, 2016 and 2015, property and equipment included approximately $171,000 and $156,000 and accumulated depreciation included approximately $94,000 and $73,000 related to assets acquired under notes payable, respectively.

7. Notes Payable

Notes payable at September 30, 2016 and 2015 consist of the following:

	2016	2015
Note payable (a)	8,613	30,427
Note payable (b)	4,085	18,007
	12,698	48,434
Less: current portion	12,698	36,825
Non current portion	$ -	$ 11,609

a) The note is payable in monthly instalments of $1,986 including interest at a rate of 6.99% per annum, with a final payment in December 2016. The note is collateralized by certain equipment.

b) 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 certain equipment.

As of September 30, 2016, aggregate annual principal payments for each of the following years are as follows:

Year ending September 30,	
2017	12,698
	$ 12,698

8. Income Taxes

Income before income tax expense for the years ended September 30, 2016 and 2015 were derived in the following jurisdictions:

	2016	2015
Australia	$ 2,079,043	$ 8,230,750
Mongolia	-	(8,624)
Indonesia	(420,563)	450,229
United States	(1,017,143)	(727,345)
	$ 641,337	$ 7,945,010

Net income tax expense for the years ended September 30, 2016 and 2015 were incurred in the following jurisdictions:

	2016	2015
Australia	$ 1,008,794	$ 2,641,256
Indonesia	-	-
United States	-	-
	$ 1,008,794	$ 2,641,256

8. Income taxes (continued)

The components of the income tax expense (benefit) are as follows for the years ended September 30, 2016 and 2015:

		2016		2015
Current				
Foreign	$	786,261	$	2,805,624
Deferred				
Foreign		222,533		(164,368)
	$	1,008,794	$	2,641,256

The components of the deferred tax assets and liabilities consist of the following at September 30, 2016 and 2015:

		2016		2015
Deferred tax assets				
Timing differences		219,231		451,149
Deferred tax liabilities				
Other		(166,915)		(192,622)
Deferred tax assets/(liabilities), net	$	52,316	$	258,527

The effective tax rate in 2016 and 2015 differs from the U.S. federal statutory rate as follows:

	2016	2015
U.S. federal statutory rate	34%	34%
(Benefit)of lower foreign effective tax rate	-	(1)%
Cost of higher foreign effective tax rate	123%	-
Effective tax rate	157%	33%

During the financial year ended September 30, 2016 effective tax rate was increased due to losses in Indonesian and North American subsidiaries and reversal of certain deferred tax assets.
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, 2016 and 2015, 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	2013-2016
Australia	2012-2016

9. Commitments and contingencies

Operating Lease
The Company leases its office and manufacturing space from a related party for approximately $658,000 for the year ended September 30, 2016 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, 2016 and 2015 was approximately $694,000 and $735,000 respectively.

Operating Lease Commitments

Non cancellable operating lease commitments not capitalised in the financial statements

Minimum lease payments payable	2016	2015
2016	$ -	$ 648,183
2017	659,571	603,036
2018	659,571	603,036
2019	274,821	251,265
	$ 1,593,963	$ 2,105,520

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 $ 2,848,000) as at September 30, 2016. The construction of the building is currently on hold and land and buildings were placed on sale due to changes in business conditions. Payments of IRP 20,186,000,000 (approximately US$ 1,615,000) have been made to balance date. Further payments of IRP 15,414,000,000 (approximately US$ 1,233,000) remain outstanding at balance date. However there has been no further progress on construction since 2013 and it is highly unlikely that this amount will become payable.

Amended and Restated Intellectual Property License Agreement
On September 1, 2016, the Company entered into an intellectual property license agreement (the “2016 License Agreement”) with an entity controlled by the Kostecki family, holders of nearly 60% of our outstanding common stock. In addition to clarifying the description of the intellectual property licensed to the Company under the agreement, the revised agreement extended the term of the historical intellectual property license originally entered into with Gene Kostecki, the deceased founder of the Company. The 2016 License Agreement extended the term of the license for twenty five years with three options to extend for further terms of ten years each. Under the terms of the 2016 License Agreement, the Company is required to pay royalties of 6% on the gross sales of Arcoplate products, calculated monthly – the same royalty rate as applies under the replaced agreement. At September 30, 2016 and 2015, approximately $126,000 and $137,000 respectively, was payable under this agreement. The royalty expense was approximately $1,018,000 and $1,335,000 for the years ended September 30, 2016 and 2015, respectively.

Raw Material Purchases
The Company purchased various materials and production inputs from an entity affiliated with the major shareholder amounting to $1,692,000 for the year ended September 30, 2016 (2015 - $3,243,000) under normal commercial terms and conditions.

10. Major customers, suppliers and geographic information

The Company had revenues from a customer for the years ended September 30, 2016 and September 30, 2015 of approximately $4,411,411 and $6,936,757 respectively. Accounts receivable due from this customer was approximately $496,743 and $478,032 at September 30, 2016 and 2015.

	2016 Revenue
Customer A	26%

	2015 Revenue
Customer A	29%

For the years ended September 30, 2016 and 2015, the Company purchased approximately 21% and 38% of its inventories from two suppliers, respectively.

For the years ended September 30, 2016 and 2015, revenues were derived from the following:

	2016	**2015**
Australia	79%	77%
Americas	13%	11%
Other	8%	12%
	100%	100%

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

For the years ended September 30, 2016 and 2015, fixed assets were located in the following countries:

	2016	**2015**
Indonesia	68%	61%
Australia	30%	36%
Americas	2%	3%
	100%	100%

12. Recently issued accounting standards

In January 2015, the Financial Accounting Standards Board ("FASB") issued guidance which eliminates the concept of an extraordinary item. As a result, entities will no longer segregate an extraordinary item from the results of ordinary operations; separately present an extraordinary item on its income statement, net of tax, after income from continuing operations; and disclose income taxes and earnings per share data applicable to an extraordinary item. The guidance is effective for the Company beginning the first quarter of fiscal 2017 with early adoption permitted. The adoption of this guidance is not expected to have a significant impact on our consolidated financial position, results of operations, or cash flows.

In May 2014, the FASB issued guidance on revenue from contracts with customers. The guidance outlines a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers and supersedes the most current revenue recognition guidance. The guidance is effective for the Company beginning the first quarter of fiscal 2018. In April 2015, the FASB issued a proposal that would defer the effective date by one year. The Company is in the process of determining the impact of this guidance on our consolidated financial positions, results of operations, and cash flows.

13. Recently issued accounting standards (Continued)

In April 2014, the FASB issued guidance that changes the criteria for reporting discontinued operations while enhancing disclosures in this area. Under the new guidance, only disposals representing a strategic shift in operations should be presented as discontinued operations. The guidance is effective for the Company beginning the first quarter of fiscal 2016. The adoption of this guidance is not expected to have a significant impact on our consolidated financial position, results of operations, or cash flows.

In July 2013, the FASB issued guidance on the presentation of unrecognized tax benefits when a net operating loss carry forward, a similar tax loss, or a tax credit carry forward exists. The guidance requires entities to present an unrecognized tax benefit netted against certain deferred tax assets when specific requirements are met.

In February 2016, the FASB has issued an Accounting Standards Update (ASU) intended to improve financial reporting about leasing transactions. The ASU will require organizations that lease assets—referred to as "lessees"—recognize on the balance sheet the assets and liabilities for the rights and obligations created by those leases. The ASU on leases will take effect for fiscal years beginning after December 15, 2019, and for interim periods within fiscal years beginning after December 15, 2020.
Early application is permitted.

In July 2015, the FASB has issued an Accounting Standards Update (ASU) intended to improve financial reporting about inventory transactions. The standard simplifies the current 'lower of cost or market' test by eliminating the multiple measures of 'market'. The ASU on inventory will take effect for fiscal years beginning after December 2015, 2016 and for interim periods within fiscal years beginning after December 15, 2017. Early application is permitted.

12. Subsequent Events

Management has performed a review of subsequent events through to December 23, 2016, the date the financial statements were available to be issued and discloses the following.

Acquisition of Matrix Metals

On 18th November 2016 the Board of AYSI's wholly owned subsidiary, Alloy Steel Australia (Int) Pty Ltd (ASAI), reached agreement to acquire Matrix Metals International Pty Ltd (Matrix), an entity controlled by the Kostecki family, Matrix has supplied certain steel and alloy raw materials to ASAI, under long-standing supply arrangements.

The acquisition consolidates into the Company these material supply arrangements that have been conducted over the years through a succession of Kostecki family entities and further consolidates these aspects of the Arcoplate business within the AYSI Group. At this time, the related party transactions with the Kostecki family that remain in place comprise the 2016 License Agreement and the rental of ASAI's manufacturing facilities in Australia.

AYSI acquired Matrix on a cash free, debt free basis (with customary normalized net working capital adjustments) for A$7.85m effective on 18 November 2016. The Board of AYSI sought and received a 'fair value assessment' of the acquired Matrix assets from an independent advisory firm in Australia and the consideration paid fell well within the indicated valuation range. As a result of the acquisition of Matrix, AYSI will eliminate historical payment obligations to Matrix and its predecessors that, in the fiscal years ended September 30, 2016 and 2015, respectively, totalled A$2,296,000 and A$4,123,000 respectively. AYSI management regards this transaction as a key step toward consolidating all material aspects of the Arcoplate business within the Company, which process commenced with the passing of AYSI's founder, Gene Kostecki, in 2014.