

Annual Report June 2014

MHM

METALS

(ABN 41 124 212 175)

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MHM Metals Limited

Corporate Information

Directors

Iain Macgregor Crawford Kirkwood
David Brian Menzies
Matthew Thomas McClelland Keen
Franklyn Roger Brazil
Philip Andrew Thick

Company Secretary

Lee David Mitchell
Peter Ansell

Share Register

Security Transfer Registrars Pty Ltd
770 Canning Highway
Applecross WA 6153

Auditor

Deloitte Touche Tohmatsu
550 Bourke Street
Melbourne VIC 3000

Solicitors

Logie-Smith Lanyon Lawyers
Level 12, 575 Bourke Street
Melbourne VIC 3000

Bankers

National Australia Bank
Geelong Business Banking Centre
49-51 Malop Street
Geelong VIC 3220

Stock Exchange Listings

MHM Metals Limited shares are listed on the Australian Securities Exchange

Ordinary Fully Paid Shares (ASX Code: MHM)

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Directors' Report

Your Directors present their report on the consolidated entity (referred to hereinafter as the "Group") consisting of MHM Metals Limited ("the Company" or "MHM") and the entities it controlled at the end of, or during, the year ended 30 June 2014.

Directors

The following persons were Directors of MHM Metals Limited during the financial year ended 30 June 2014 and up to the date of this report. All Directors, unless otherwise indicated, were in office from the beginning of the financial period until the date of this report.

I M C Kirkwood MA (Hons) Oxon, FCPA, CA, MAICD . Non-executive director – Chairman

Experience and expertise

Mr Kirkwood joined the Board on 13 February 2013 and became Chairman on 5 August 2013. He is an experienced private consultant, investor and non-executive director. He has considerable practical and operational experience gained from a successful financial career spanning 35 years in a range of industries including auditing, resources, manufacturing and latterly healthcare in Australia, Britain and the USA. He started his career at Arthur Andersen & Co in London. He held a range of senior financial and general management positions in Woodside Petroleum Limited, Santos Limited, Pilkington plc, F.H. Faulding & Co Limited and Clinuvel Pharmaceuticals Limited. During the past 3 years he has also served as a Director of the following listed companies:

Bluechip Limited (ASX: BCT) – Chairman.

Avexa Limited (ASX: AVX) – Chairman.

Medical Developments International Ltd (ASX: MVP). Resigned 26 February 2013.

Vision Eye Institute Ltd (ASX: VEI).

Special responsibilities

Chairman

Interests in shares and options at the date of the report

Nil

D B Menzies B.Comm., B.Eng. (Hons), PGDipMgt, MBA, PhD. Non-executive director (Appointed 18 December 2013)

Experience and expertise

Dr Menzies who has a PhD in Materials Engineering (Monash) and an MBA (Melbourne) has a background in strategy, finance, marketing and materials engineering. He started his professional career in product development consulting at Invetech before moving to Securrency International in a strategic planning followed by marketing role. He is currently the Managing Director of Platinum Road, a private corporate advisory business providing advice, corporate transaction and capital raising services to both private and listed companies. During the last 3 years he has not served as a Director of other listed companies.

Interests in shares and options at the date of the report

Nil

Directors' Report

Directors (continued)

M T M Keen B. Eng. (Hons) Executive director (Appointed 6 June 2014)

Experience and expertise

Mr Keen, who holds an Electrical and Electronic Engineering degree, has 15 years' experience in both engineering and finance and in a variety of senior roles. He has worked in complex engineering, mining, construction and infrastructure projects both locally and internationally. Most recently he was the Managing Director of Queen Street Capital, a private corporate advisory business where he gained enormous experience across a range of projects and professional networks.

Interests in shares and options at the date of the report

320,000 ordinary shares in MHM Metals Limited (indirect).

F R Brazil Non-executive director (Resigned 6 June 2014)

P A Thick B. Eng. (Hons) Non-executive director (Resigned 18 December 2013)

MHM Metals Limited

Directors' Report

Directors (continued)

Company Secretary

L D Mitchell (appointed 7 February 2014)

Mr Mitchell has been appointed Company Secretary of MHM Metals Limited effective 7 February 2014. Mr Mitchell is a qualified lawyer and has practised in corporate and commercial law for 19 years. He advises on corporate and securities regulation, capital raisings, corporate governance and company secretarial matters.

P Ansell (resigned 7 February 2014).

Principal activities

During the period the principal activities of the Group consisted of aluminium salt slag processing.

Dividends

No dividends were paid to members during the financial year and the Directors do not recommend the payment of a dividend.

Consolidated Statement of Profit or Loss and Other Comprehensive Income

	Results 2014 \$	Results 2013 \$
Revenue	7,191,006	4,712,795
Loss before income tax expense	(9,448,487)	(7,017,641)
Income tax benefit	2,556,253	-
Loss attributable to members of MHM Metals Limited	(6,892,234)	(7,017,641)

Review of Operations

Sales revenue from waste processing services increased to \$7,028,145 (2013: \$4,679,403) principally as a result of increased tolling revenue from Alcoa and Sims Metals. The substantially increased revenue is also a result of MHM dealing with Alcoa directly for the full year given the new arrangements took effect in April 2013.

Production costs increased to \$5,853,078 (2013: \$5,648,875) due to the increased volume of material processed. An increase in revenue and a reduction in unit costs in the business gave the Company an improved EBITDA versus 2013.

The ability of the business to generate stronger cashflow and higher profit is constrained by stockpiles of partly processed and unprocessed salt slag stored at the Moolap site. These stockpiles are a legacy of the former arrangements involving the Project Development Corporation Joint Venture (PDC JV) where revenue has previously been received but processing costs had yet to be incurred. This is further detailed in the Moolap operations review below.

Directors' Report

Review of Operations (continued)

Moolap operations

MHM's wholly owned subsidiary Alreco Pty Ltd ("Alreco") continued processing aluminium waste at its Moolap plant throughout the year with a target of achieving cash flow breakeven through improved operational management.

The Process

At the beginning of FY2014 the process had limitations, being unable to remove the non-metallic fines from the brine. The installation of a small filter press in July 2012 was inadequately sized to handle the volume of fines passing through the system. This necessitated a complete remodel of non-metallic and brine separation circuit with the removal of the dewatering screws and small filter press from the process and replacement with a larger capacity vertical plate filter press. Installing the new much larger filter press into an existing process whilst operations continued presented challenges which resulted in the installation and commissioning taking longer than expected. Once installed however, the ability of the process to separate all fines from the brine improved dramatically. This finally achieved Alreco's fundamental objective of processing incoming and stored salt slag to produce aluminium for return to Alcoa, salt in the form of a clean brine and non-metallic product for sale into domestic and international markets.

The process now meets its primary objective after installation of the new filter press. This allowed management to focus on improving operational efficiencies via increasing throughput and decreasing downtime. The increased efficiency has reduced unit costs and moved the company towards a position of positive cash flow. Management set very high target production targets, which has provided the groundwork for the improved operational performance. Throughput increased throughout FY2014 and this trend is continuing into the first quarter of FY2015.

During FY2014, Alreco processed a higher volume of material than it actually received from Alcoa and Sims Metals as a result of having to progressively reduce the aforementioned legacy stockpiles on the Moolap site. This had the effect of increasing total production costs because the legacy stockpiles do not generate any tolling revenue (i.e. the revenue had been received in previous years by the PDC joint venture). To comply with EPA requirements, all positive cashflows generated from profitable processing of Sims and Alcoa material was put towards reducing the legacy stockpiles at the Moolap site.

Non Metallic Product (NMP)

Alreco continued to increase its sales volume of non metallic product (NMP) in line with the increased production at Moolap. Many new domestic and international customers trialled NMP, with a few placing repeat orders. The majority of Alreco's NMP is purchased by the metallurgical industry for application in steel manufacture, with the remainder used in the manufacture of refractories and ceramics. The company continues to exploit further applications for its NMP to ensure it can achieve the best possible value for this product.

Closing of Alcoa and Sims secondary smelting

In 2013, Sims Metals informed the Company that it intended to close its secondary aluminium processing facilities in Laverton, Victoria by December 2013. The company continued to receive stockpiled salt slag from Sims Metals through to March 2014. The closure of Sims Metals facility had a relatively small impact on the revenues that the company received.

Directors' Report

Review of Operations (continued)

In February 2014, Alcoa Inc. informed MHM that their secondary aluminium operations in Yennora, NSW will be closed at the end of 2014. The closure of the Yennora facility is scheduled for December 2014 and will have a detrimental impact on the revenues that the Company receives during FY2015.

To date, the Company has been unable to secure further aluminium salt slag feedstock for processing at its Moolap plant.

Impairment of non-current assets

The directors have evaluated the ability of the Alreco processing facility to generate future cash flows beyond 31 December 2014, the end of the Alcoa contract. This assessment resulted in recording an impairment charge of \$5,838,656 (\$3,338,656 recorded at 31 December 2013) against the carrying value of the Alreco plant and equipment.

In addition the 2014 Strategic Review (refer later) concluded that any future expansion into the USA is currently sub-economic. Accordingly the directors have determined that the carrying value of the Company's USA intangible assets of approximately \$500,000 should be impaired to \$Nil.

2014 Strategic review

The closing of the two main secondary aluminium smelting operations on the east coast of Australia has forced the Company to undertake another strategic review following the one completed in late 2012.

The 2014 Strategic Review has been wide ranging and included examination and analysis of Moolap's current operation, an 'ideal' process, environmental liabilities, Alcoa's landfill as ongoing feedstock, expansion opportunities, potential for Alreco to process alternate materials and improving the value of NMP.

The 2014 Strategic Review is continuing however the Company provides the following synopsis of the status quo:

i) Current Moolap operations

The current operations work adequately enough to process the salt slag into three discrete products, however it is far from 'world class'. The existing plant employs equipment that is old and, in some instances, not fit for purpose. Some equipment has been updated, in particular the new filter press, but since the Yennora closure announcement no further substantive work has been completed.

A thorough analysis of downtime, quality and throughput was undertaken which provided a clear picture of the current operational efficiency and identification of the causes of operational issues. Additional process controls were installed to improve the ability of management to monitor the entire process. The Company now has a clear understanding of the existing operation and has taken significant steps to improve the efficiency and subsequent profitability. This has provided the Company with the confidence that, properly maintained, the Moolap plant has sufficient life to process the 160,000 tonnes of material in Alcoa's landfill in the event that Alcoa and the EPA determine that this is required (refer iii below).

Directors' Report

Review of Operations (continued)

ii) Legacy stockpile & EPA

On 9 December 2013, the EPA issued a Pollution Abatement Notice (PAN) due to the Moolap plant site exceeding its licensed limit of storage of salt slag. An agreement was reached with the EPA whereby on or before 1 July 2015, the Company will have reduced its store of salt slag to be within the 3,000 tonne

license limit. This situation is a legacy of the former arrangements involving the Project Development Corporation Joint Venture. The Company has developed and implemented a work plan to reduce environmental and associated legacies including, as announced to ASX on 22 September, the issuance of demands on several claims to recover substantial funds against a number of entities including PDC and its Joint Venture parties.

iii) Alcoa's Landfill

It is estimated that Alcoa has approximately 160,000 tonnes of unprocessed salt slag material at Moolap. The Company reviewed the available data and how it could best deal with this salt slag using its current operations at Moolap. The economics of processing the Alcoa Landfill were also reviewed to determine at what level of aluminium content the Alcoa Landfill would become economical.

The 2014 Strategic Review concluded that the Company is adequately equipped to treat the Alcoa Landfill material. The Company has actively engaged with Alcoa and the EPA to understand the requirements of treating this landfill and, to date, awaits a decision as to whether or not the Alcoa Landfill is required to be processed. In the event that the Company secures this remediation work, it will provide several years of feedstock for Moolap to process. In addition it would allow the Company to (i) further improve the Moolap plant's production efficiency, (ii) complete its current investigations to value-add the NMP, and (iii) provide a longer timeline regarding the potential for international or other expansion.

iv) Expansion opportunities

The Company undertook a review of expansion options in the USA and other jurisdictions where salt slag is generated. The process used at the Moolap site was further reviewed to determine whether an 'ideal' process could be implemented in a greenfield operation at its existing Kentucky site in the USA. This 'ideal' process was modelled to determine the feasibility and economics of establishing such a USA based operation and compared to the competing options available to secondary smelters in the USA.

Taking into consideration the current regulatory environment in USA (i.e. unprocessed salt slag can be landfilled) and the significant investment required to establish a greenfield operation (approximately \$20 - \$30 million), the directors concluded that expanding to the USA in the short term is not realistic. Should the environment in USA change, the Company can reassess the opportunity.

The possibility of expanding into other jurisdictions was also explored and where the competitive landscape is 'open' or would accommodate another entrant. In particular, the Middle East was examined where landfill costs are relatively high but potential volumes lower. Again, the directors concluded that the economics are marginal, a joint venture party would be required and the capital investment significant.

v) Value-add of non metallic product (NMP)

A review of possible 'value add' processes that could be undertaken on the NMP was conducted. This included reviewing processes used by current purchasers of the NMP as well as other applications that

Directors' Report

Review of Operations (continued)

would be 'new ground'. Areas that were reviewed include metallurgical, refractory and ceramic products.

In order to make the processing of salt slag more economically viable, the Company has looked at various value add scenarios for fine NMP. The Company is still actively pursuing application in the ceramic industry for the NMP and will continue to work on this. The current testing at CSIRO is aimed at a 'proof of concept' level. The future of this opportunity is dependent on availability of salt slag feedstock.

vi) Transformation

An initial review of other possible waste streams that could be treated with equipment at the Moolap site was undertaken.

Although the process appears to have broader application, most of the alternate waste streams that have been considered do not have adequate volume. The Company will continue to look at other waste streams as they come to light to determine if they are applicable to the Company's Moolap operation. Whilst this item is open it will be more reactive than proactive.

Conclusions

1. The ability of the Company continuing to work in the domestic waste sector treating salt slag is solely dependent on the outcome of decisions by Alcoa (and the EPA of Victoria) regarding the Alcoa landfill.
2. In the event that the Alcoa landfill opportunity does not eventuate, the Company will activate its plan to clean up the Moolap site including the removal of all legacy stockpiles.
3. Expansion into USA (or other jurisdictions) is currently sub-economic even assuming the Company could secure the substantial capital investment. Accordingly the directors have determined that it is in the best interests of the Company to sell Russellville property in Kentucky.

Litigation

On 5 December 2013 the company initiated proceedings in the Federal Court, Victorian Registry, against its former Managing Director Mr. Frank Rogers in respect to alleged breaches of the Corporations Act, 2001. The claim alleged irregular asset purchase transactions with an approximate value of \$720,000, including in relation to a vessel on which the company spent over \$500,000.

On 18 September 2014 in the Federal Court of Australia at Melbourne, Justice Davies ordered Mr Rogers and Rogers Southern Pty Ltd (a company controlled by Mr Rogers) to pay compensation to the Company amounting to \$548,581 (plus interest and costs) for breach of director duties and misappropriation of funds.

Directors' Report

Review of Operations (continued)

The compensation relates to the purchase and refit of a survey vessel by the Company for use in its erstwhile exploration activities in Tasmania in 2008. The survey vessel was subsequently revealed to be a pleasure yacht, the "Ocean Voyager", belonging to Mr Rogers' Family Trust.

Initiation of recovery claims

The Company has also issued demands on several claims to recover substantial funds (approximating \$5 million, plus interest and legal costs), against a number of entities including Project Development Corporation (PDC) and its Joint Venture partners. The recovery claims relate to alleged breaches of a number of agreements entered into by the MHM Metals group of companies concerning processing and sales, and technology licenses with PDC and its joint venture partners.

The directors consider these further potential recovery claims in which demands have been issued are serious and substantive. The Company alleges that there were fundamental errors in the application of the various agreements which resulted in material financial loss for the Company over a number of years. Further, there appear to have been a myriad of related party transactions and conflict of interest issues, which raise disclosure and corporate governance concerns. The Company's legal advice is strong and it will vigorously pursue these claims.

Events Subsequent to the End of the Reporting Period

Other than as disclosed elsewhere in this report, there have been no subsequent events since the end of the financial year to the date of this report.

Dividends

In respect of the financial year ended 30 June 2014, no dividend has been paid or declared and no recommendation is made as to dividends.

Likely developments and expected results of operations

Likely developments in the operations of the Group and the expected results of operations have been disclosed within other sections of the Directors' report and there are no other matters to be included here.

Environmental regulation

The Group is subject to the environmental laws and regulations imposed under the Mineral Resources Development Act 1995, depending on the activities being undertaken. The Group is engaged in exploration activities which are governed by conditions and recommendations imposed through the granting of a licence or permit to explore. Compliance with these laws and regulations is regarded as a minimum standard for the Group to achieve.

The Group is currently in breach of environmental regulations at the Moolap processing plant as the current storage of salt slag is above the quantity allowed in its license. The Group has been issued with a Pollution Abatement Notice (PAN) by the EPA which requires it to rectify the breach. The Group regularly reports its progress in meeting the PAN to the EPA and is currently on schedule to meet the rectification date.

The Group is subject to the reporting requirements of the National Pollutant Inventory under the National Environmental Protection Measures legislation. This requires the Group to monitor, measure and report its

Directors' Report

Review of Operations (continued)

annual emissions. The Group has implemented systems and processes for the collection and calculation of the data required and submitted its 2013/2014 report on 10 October 2013.

Meeting of Directors

The number of meetings of the group's board of Directors held during the period ended 30 June 2014, and the number of meetings attended by each Director were:

	Full meetings of Directors	
	Held	Attended
Iain Kirkwood	11	11
David Menzies (appointed 18/12/2013)	5	5
Matthew Keen (appointed 6/06/2014)	1	1
Lee Mitchell (appointed 7/2/2014)	5	5
Franklyn Brazil (resigned 6/06/2014)	10	10
Philip Thick (resigned 18/12/2013)	6	6

Directors' Report

Remuneration report (audited)

The remuneration report is set out under the following main headings:

- (a) Principles used to determine the nature and amount of remuneration
- (b) Details of remuneration
- (c) Service agreements
- (d) Share-based compensation
- (e) Additional information

The information provided in this remuneration report has been audited as required by section 308(3C) of the Corporations Act 2001 (Cth).

(a) Principles used to determine the nature and amount of remuneration

The objective of the Group's executive reward framework is to ensure reward for performance is competitive and appropriate for the results delivered. The framework aligns executive reward with achievement of strategic objectives, the creation of value for shareholders and conforms with market practice for delivery of reward. The Board ensures that executive reward satisfies the following key criteria for good reward governance practices:

- competitiveness and reasonableness;
- acceptability to shareholders;
- performance linkage/alignment of executive compensation;
- transparency; and
- capital management.

The Group has structured an executive remuneration framework that is market competitive and complimentary to the reward strategy of the organisation.

Alignment to shareholders' interests:

- focuses on exploration success as the creation of shareholder value and returns;
- focuses on sustained growth in shareholder wealth, consisting of dividends and growth in share price, and delivering constant return on assets as well as focusing the executive on key non-financial drivers of value; and
- attracts and retains high calibre executives.

Alignment to program participants' interests:

- rewards capability and experience;
- reflects competitive reward for contribution to growth in shareholder wealth;
- provides a clear structure for earning rewards; and
- provides recognition for contribution.

The framework provides a mix of fixed and variable salaries.

The overall level of executive rewards is not dependent on the performance of the Group or satisfaction of a performance condition. The Group is involved in aluminium salt slag processing did not derive a profit and therefore growth in earnings is not considered relevant. During the same period, average executive remuneration has been maintained in accordance with industry standards.

Directors' Report

Remuneration report (continued)

As at 30 June 2014 the Group had not formalised its short term or long term incentive policy for key management personnel and link to performance. The table below sets out summary information about the Group's consolidated earnings and share price movements for the five years to 30 June 2014.

	30 June 2014	30 June 2013	30 June 2012	30 June 2011	30 June 2010
Revenue	7,191,006	4,712,795	3,976,648	5,089,967	2,855,239
Net (loss) before tax	(9,448,487)	(7,017,641)	(7,066,521)	(1,411,086)	(2,022,245)
Net (loss) after tax	(6,892,234)	(7,017,641)	(6,152,728)	(1,270,657)	(1,933,627)
Basic loss per share (cents)	(5.3)	(5.4)	(6.0)	(1.3)	(2.6)
Share price at start of the year (\$)	0.12	0.44	1.00	0.18	0.07
Share price at the end of the year (\$)	0.014	0.12	0.44	1.00	0.18
Dividends	-	-	-	-	-

Non-executive Directors

Fees and payments to non-executive Directors reflect the demands which are made on and the responsibilities of, the Directors. Non-executive Directors' fees and payments are reviewed annually by the Board. The Chairman's fees are determined independently to the fees of non-executive Directors based on comparative roles in the external market. The Chairman is not present at any discussions relating to determination of his own remuneration.

Directors' fees

The current base remuneration was last reviewed with effect from 1 July 2010. Director's remuneration is inclusive of committee fees.

Non-executive Directors' fees are determined within an aggregate directors' fee pool limit, which is periodically recommended for approval by shareholders. The maximum currently stands at \$200,000 per annum and was approved by shareholders at the annual general meeting on 29 November 2010.

Retirement allowances for Directors

There is no provision for retirement allowances for non-executive Directors. Superannuation contributions required under the Australian superannuation guarantee legislation continue to be made and are deducted from the Directors' overall fee entitlements.

Executive pay

The executive pay and reward framework has three components:

- base pay, benefits and bonuses;
- long-term incentives through participation in the Employee Option Plan; and
- other remuneration such as superannuation.

The combination of these comprises the executive's total remuneration.

Directors' Report

Remuneration report (continued)

(i) Base pay

Structured as a total employment cost package which may be delivered as a combination of cash and prescribed non-financial benefits at the executives' discretion.

Executives are offered a competitive base pay that comprises the fixed component of pay and bonuses. Base pay for executives is reviewed annually to ensure the executive's pay is competitive with the market. An executive's pay is also reviewed on promotion.

There are no guaranteed base pay increases included in any executives' contracts.

A performance based bonus may be paid at the discretion of the Board based on company performance with no fixed future entitlements. All cash bonuses must be assessed and approved by independent members of the Board.

(ii) Benefits

Executives receive benefits including memberships, car allowances and reasonable entertainment.

(iii) Retirement benefits

Directors and employees are permitted to nominate a superannuation fund of their choice to receive superannuation contributions.

(iv) Employee share option scheme

The MHM Metals Limited employee share option plan was established on the 7 December 2007. Under the plan, the board may issue options to participants (or to a nominee as the participant directs) having regard, in each case, to:

- a. the contribution to the Company which has been made by the participant;
- b. the period of employment of the participant with the company, including (but not limited to) the years of service by that participant;
- c. the potential contribution of the participant to the company; and
- d. any other matters which the board considers in its absolute discretion, to be relevant.

When exercisable, each option is convertible into one ordinary share. Options granted carry no dividend or voting rights.

The exercise price of options is the exercise price determined by the board on or before the issue date provided that in no event shall the exercise price be less than the weighted average sale price of shares sold on ASX during the five business days prior to the issue date or such other period as determined by the board.

MHM Metals Limited

Directors' Report

Remuneration report (continued)

Use of remuneration consultants

MHM Metals Limited did not employ the services of any remuneration consultants for the 2014 financial year (2013: Nil).

Voting and comments made at the company's 2013 Annual General Meeting

MHM Metals Limited received more than 91% of "yes" votes on its remuneration report for the 2013 financial year. The company did not receive any specific feedback at the AGM or throughout the year on its remuneration practices.

(b) Details of remuneration

The key management personnel of the Group are the Directors of MHM Metals Limited (see pages 4 to 5).

Details of the remuneration of the Directors and the key management personnel of the Group (as defined in AASB 124 Related Party Disclosures) are set out in the following tables:

2014		Short-term employee benefits			Post-employment benefit	Share based payments		
Name	Cash salary and fees \$	Cash bonus \$	Non-monetary \$	Super-annuation \$	Options \$	Total \$	Performance related %	
Non-executive Directors:								
P A Thick (1)	18,349	-	-	1,651	-	20,000	-	
F R Brazil (2)	18,667	-	-	1,702	-	20,369	-	
I M Kirkwood (3)	53,437	-	-	4,905	-	58,342	-	
D Menzies (5)	19,684	-	-	1,821	-	21,505	-	
Executive Directors:								
MTM Keen (4)	201,923	-	-	18,678	-	220,601	-	
Other key management personnel:								
R McAlister (6)	66,646	-	-	22,291	-	88,937	-	
J Thiele (7)	140,000	-	-	12,950	-	152,950	-	
Total compensation (Group)	518,706	-	-	63,998	-	582,704	-	

(1) P A Thick resigned as director on 18/12/13.

(2) F R Brazil resigned as a director on 6/06/14.

(3) I M Kirkwood was appointed as director on 13/02/13. He was appointed chairman on 5/08/13.

(4) MTM Keen was appointed as CEO on 13/09/13, and Managing Director on 6/06/14.

Directors' Report

Remuneration report (continued)

- (5) D Menzies was appointed as director 19/12/13.
 (6) R McAlister resigned as CEO on 13/09/13.
 (7) J Thiele resigned as CFO on 14/09/14.

No bonuses were paid to new Directors or key management personnel of the Group prior to their appointments.

2013	Short-term employee benefits			Post-employment benefit	Share based payments		
Name	Cash salary and fees \$	Cash bonus \$	Non-monetary \$	Super-annuation \$	Options \$	Total \$	Performance related %
Non-executive Directors:							
B A Conti (1)	9,600	-	-	7,217	-	16,817	-
P A Thick	10,321	-	-	929	-	11,250	-
F R Brazil (2)	14,570	-	-	1,311	-	15,881	-
P J Lappin (3)	34,947	-	-	3,145	-	38,092	-
I M Kirkwood (4)	13,980	-	-	1,258	-	15,238	-
Executive Directors:							
P A Thick	227,514	-	-	20,579	9,238	257,331	-
B W Mead (5)	60,079	-	-	-	-	60,079	-
F A Rogers (6)	12,500	-	-	1,125	-	13,625	-
S H Wells (7)	57,500	-	-	5,175	-	62,675	-
Other key management personnel:							
J Thiele (8)	84,359	-	-	7,592	-	91,951	-
R McAlister (9)	54,250	-	7,095	19,375	-	80,720	-
Total compensation (Group)	579,620	-	7,095	67,706	9,238	663,659	-

- (1) B A Conti resigned as chairman and director on 10/10/12.
 (2) F R Brazil was appointed on 10/10/12. He was chairman between 13/02/13 and 5/08/13.
 (3) P J Lappin was appointed as chairman on 10/10/12 and resigned as chairman and director on 13/02/13.
 (4) I M Kirkwood was appointed as director on 13/02/13. He was appointed chairman on 5/08/13.
 (5) B W Mead resigned as director on 10/10/12.
 (6) F A Rogers resigned as director on 8/08/12.
 (7) S H Wells resigned as director on 10/10/12.
 (8) J Thiele was appointed as CFO on 26/11/12 and resigned as CFO on 14/09/14
 (9) R McAlister was appointed CEO on 2/04/13 and resigned as CEO on 13/09/13.

No bonuses were paid to new Directors or key management personnel of the Group prior to their appointments.

Directors' Report

Remuneration report (continued)

(c) Service agreements

Remuneration and other terms of employment for Executive Directors were formalised in service agreements. The agreements for Executive Directors provide for the provision of consulting fees and participation, when eligible, in the Employee Share Option scheme.

Major provisions of the key management personnel contracts relating to remuneration are per below.

MTM Keen, CEO

- Term of agreement: reviewed annually, until terminated in accordance with the agreement, notice period of three months;
- Base salary for the year ended 30 June 2014 of \$250,000. Motor vehicle provided. Provision of four weeks annual leave; and
- Upon termination any payment required by legislation is payable by the company.

J Thiele, CFO, resigned on 14/09/14

- Base salary for the year ended 30 June 2014 of \$140,000. Provision of four weeks annual leave; and
- Notice period of termination three months.

(d) Share-based compensation

Options are granted under the Employee Share Option scheme. All staff are eligible to participate in the scheme (including Executive Directors) at the absolute discretion of the Board.

Options are granted under the scheme for no consideration. Entitlements to the options are vested as soon as they become exercisable.

Per service contracts, employees are granted options upon completion of 12 months employment.

Options are issued to Directors at the discretion of the Board on an annual basis in relation to services provided to MHM Metals Limited.

No options were granted during the year ended 30 June 2014.

Directors' Report

Remuneration report (continued)

Details of remuneration: cash bonuses and options

For each bonus included in the tables on pages 16 and 17, the percentage of the amount paid in the financial year, and the percentage that was forfeited because the person did not meet the service criteria is set out below. No part of the bonuses is payable in future years.

Name	Cash bonus			
	Proportion Paid/Payable		Proportion Forfeited	
	2014	2013	2014	2013
I M C Kirkwood	-	-	-	-
D B Menzies	-	-	-	-
MTM Keen	-	-	-	-
P A Thick	-	-	-	-
F R Brazil	-	-	-	-

2014 Name	A Remuneration consisting of options	B Value at grant date \$	C Value of options exercised during the year \$	D Value of options lapsed during the year \$
I M C Kirkwood	0%	-	-	-
D B Menzies	0%	-	-	-
MTM Keen	0%	-	-	-
P A Thick	0%	-	-	-
F R Brazil	0%	-	-	-
2013 Name	A Remuneration consisting of options	B Value at grant date \$	C Value of options exercised during the year \$	D Value of options lapsed during the year \$
F A Rogers	0%	-	-	-
B W Mead	0%	-	-	-
B A Conti	0%	-	-	-
S H Wells	0%	-	-	-
P A Thick	4%	9,238	-	-
P J Lappin	0%	-	-	-
F R Brazil	0%	-	-	-
I M C Kirkwood	0%	-	-	-

A = the percentage of the value of the remuneration consisting of options, based on the value at grant date set out in column B.

B = the value at grant date calculated in accordance with AASB 2 Share-based Payments of options granted during the year as part of remuneration.

C = the value at exercise date of options that were granted as part of remuneration and were exercised during the year.

D = the value at lapse date of options that were granted as part of remuneration and that lapsed during the year.

MHM Metals Limited

Directors' Report

Remuneration report (continued)

	Number of options granted during the year		Number of options vested during the year	
	2014	2013	2014	2013
<hr/>				
Directors of MHM Metals Limited				
I M C Kirkwood (appointed 13/02/2013)	-	-	-	-
DB Menzies (appointed 18/12/2013)	-	-	-	-
MTM Keen (appointed 6/06/2014)	-	-	-	-
P A Thick (resigned 18/12/2013)	-	500,000	-	500,000
F R Brazil (resigned 6/06/2014)	-	-	-	-

(e) Key Management personnel equity holdings and share options of MHM Metals Limited

	Number of options held at 30 June		Number of shares held at 30 June	
	2014	2013	2014	2013
<hr/>				
MTM Keen (appointed 6/06/2014)	-	-	320,000	-
R McAlister (resigned 13/09/2013)	-	-	-	-
J Thiele (resigned 14/09/2014)	-	-	-	-

(f) Loans to Directors and executives

There are no loans to Directors or other key management personnel of MHM Metals Limited.

(g) Additional information

MHM Metals Limited is involved in aluminium salt slag processing; remuneration of the persons referred to above is not dependent on the satisfaction of a performance condition.

This is the end of the audited remuneration report.

MHM Metals Limited

Directors' Report

Shares under option

Unissued ordinary shares of MHM Metals Limited under option at the date of this report are as follows:

Date options granted	Expiry date	Issue price of shares	Number under option
09 October 2009	09 October 2014	\$0.25	40,000
17 December 2009	30 November 2014	\$0.28	1,900,000
05 January 2010	04 January 2015	\$0.28	100,000
06 October 2010	06 October 2015	\$0.85	150,000
20 June 2011	20 June 2016	\$1.80	300,000
19 August 2011	30 June 2016	\$1.00	150,000
15 September 2011	23 August 2016	\$1.26	100,000
04 November 2011	05 November 2014	\$1.00	300,000
02 December 2011	29 November 2016	\$1.71	1,200,000
14 February 2012	14 February 2017	\$1.35	150,000
29 November 2012	18 July 2017	\$1.00	500,000
14 November 2012	13 November 2017	\$0.45	100,000
			<u>4,990,000</u>

No option holder has any right under the options to participate in any other share issue of the company or any other entity.

Insurance of officers

During the financial year, the group paid a premium of \$16,847 to insure the Directors and Officers of the company and its Australian-based controlled entities.

The liabilities insured are legal costs that may be incurred in defending civil or criminal proceedings that may be brought against the officers in their capacity as officers of entities in the group, and any other payments arising from liabilities incurred by the officers in connection with such proceedings. This does not include such liabilities that arise from conduct involving a wilful breach of duty by the officers or the improper use by the officers of their position or of information to gain advantage for themselves or someone else or to cause detriment to the group. It is not possible to apportion the premium between amounts relating to the insurance against legal costs and those relating to other liabilities.

Insurance of auditors

The group has not, during or since the financial year, indemnified or agreed to indemnify the auditor of the company or any related entity against a liability incurred by the auditor.

During the financial year, the group has not paid a premium in respect of a contract to insure the auditor of the company or any related entity.

Directors' Report

Proceedings on behalf of the group

No person has applied to the Court under section 237 of the Corporations Act 2001 (Cth) for leave to bring proceedings on behalf of the group, or to intervene in any proceedings to which the group is a party, for the purpose of taking responsibility on behalf of the group for all or part of those proceedings.

No proceedings have been brought or intervened in on behalf of the group with leave of the Court under section 237 of the Corporations Act 2001 (Cth).

Non-audit services

The group may decide to employ the auditor on assignments additional to their statutory audit duties where the auditor's expertise and experience with the Group is important.

Details of the amounts paid or payable to the auditors for audit and non-audit services provided during the year are set out below.

The Board has considered the position and is satisfied that the provision of the non-audit services is compatible with the general standard of independence for auditors imposed by the Corporations Act 2001 (Cth).

The Directors are satisfied that the provision of non-audit services by the auditor, as set out below, did not compromise the auditor independence requirements of the Corporations Act 2001 (Cth) for the following reasons:

- all non-audit services have been reviewed by the Directors to ensure they do not impact the impartiality and objectivity of the auditor; and
- none of the services undermine the general principles relating to auditor independence as set out in APES 110 Code of Ethics for Professional Accountants.

During the period the following fees were paid or payable for services provided by the auditor of the parent entity, its related practices and non-related audit firms:

	Consolidated	
	2014	2013
	\$	\$
Audit services		
Deloitte Touche Tohmatsu	103,000	
BDO Audit (WA) Pty Ltd audit and review of financial reports	12,590	27,096
BDO East Coast Partnership audit of financial reports	-	34,000
Total remuneration for audit services	115,590	61,096
Non-audit services		
Audit-related services		
BDO Corporate & International Tax (WA) Pty Ltd taxation advice	-	6,120
Total remuneration for non-audit services	-	6,120

MHM Metals Limited

Directors' Report

Auditor's independence declaration

A copy of the auditor's independence declaration as required under section 307C of the Corporations Act 2001 (Cth) is set out on page 37.

Auditor

Deloitte Touche Tohmatsu has been appointed in accordance with section 327 of the Corporations Act 2001.

This directors' report is signed in accordance with a resolution of directors made pursuant to s. 298(2) of the Corporations Act 2001.



I M C Kirkwood
Chairman

Geelong, Victoria
30 September 2014

Corporate Governance Statement

The Board of directors of MHM Metals Limited is responsible for establishing the corporate governance framework of the Group having regard to the ASX Corporate Governance Council (CGC) published guidelines as well as its corporate governance principles and recommendations. The Board guides and monitors the business and affairs of MHM Metals Limited on behalf of the shareholders by whom they are elected and to whom they are accountable.

The Company has elected not to report against the 3rd edition of the CGC's recommendations at this time.

The table below summarises the Company's compliance with the CGC's recommendations.

Recommendation		Comply Yes/No	Reference/ explanation	ASX Listing Rule/CGC Recommendations
Principle 1 — Lay solid foundations for management and oversight				
1.1	Companies should establish the functions reserved to the Board and those delegated to senior executives and disclose those functions.	Yes	Page 27	ASX CGC 1.1
1.2	Companies should disclose the process for evaluating the performance of senior executives.	Yes	Page 30	ASX CGC 1.2
1.3	Companies should provide the information indicated in the guide to reporting on Principle 1.	Yes	Page 27	ASX CGC 1.3
Principle 2 — Structure the Board to add value				
2.1	A majority of the Board should be independent directors.	Yes	Page 29	ASX CGC 2.1
2.2	The chair should be an independent director.	Yes	Page 29	ASX CGC 2.2
2.3	The roles of chair and chief executive officer (CEO) should not be exercised by the same individual.	Yes	Page 29	ASX CGC 2.3
2.4	The Board should establish a nomination committee.	No	Page 28	ASX CGC 2.4
2.5	Companies should disclose the process for evaluating the performance of the Board, its committees and individual directors.	Yes	Page 30	ASX CGC 2.5
2.6	Companies should provide the information indicated in the guide to reporting on Principle 2.	Yes	Page 28	ASX CGC 2.6

Corporate Governance Statement

Recommendation		Comply Yes/No	Reference/ explanation	ASX Listing Rule/CGC Recommendations
Principle 3 — Promote ethical and responsible decision-making				
3.1	Companies should establish a code of conduct and disclose the code or a summary of the code as to: <ul style="list-style-type: none"> The practices necessary to maintain confidence in the company's integrity The practices necessary to take into account their legal obligations and the reasonable expectations of their stakeholders The responsibility and accountability of individuals for reporting and investigating reports of unethical practices 	Yes	Website	ASX CGC 3.1
3.2	Companies should establish a policy concerning diversity and disclose the policy or a summary of that policy. The policy should include requirements for the Board to establish measurable objectives for achieving gender diversity for the Board to assess annually both the objectives and progress in achieving them.	Yes	Website Page 35	ASX CGC 3.2
3.3	Companies should disclose in each annual report the measurable objectives for achieving gender diversity set by the Board in accordance with the diversity policy and progress towards achieving them	No	Page 35	
3.4	Companies should disclose in each annual report the proportion of women employees in the whole organisation, women in senior executives positions and women on the Board	Yes	Page 35	
3.5	Companies should provide the information indicated in the guide to reporting on Principle 3.	Yes	Page 36	ASX CGC 3.3
Principle 4 — Safeguard integrity in financial reporting				
4.1	The Board should establish an audit committee.	No	Page 28	ASX CGC 4.1
4.2	The audit committee should be structured so that it: <ul style="list-style-type: none"> Consists only of non-executive directors Consists of a majority of independent directors Is chaired by an independent chair, who is not chair of the Board Has at least three members 	No	Page 28	ASX CGC 4.2 ASX LR 12.7
4.3	The audit committee should have a formal charter.	Yes	Page 30	ASX CGC 4.3
4.4	Companies should provide the information indicated in the guide to reporting on Principle 4.	Yes	Website	ASX CGC 4.4

Corporate Governance Statement

Recommendation		Comply Yes/No	Reference/ explanation	ASX Listing Rule/CGC Recommendations
Principle 5 — Make timely and balanced disclosure				
5.1	Companies should establish written policies designed to ensure compliance with ASX Listing Rule disclosure requirements and to ensure accountability at a senior executive level for that compliance and disclose those policies or a summary of those policies.	Yes	Website	ASX CGC 5.1
5.2	Companies should provide the information indicated in the guide to reporting on Principle 5.	Yes	Page 33	ASX CGC 5.2
Principle 6 — Respect the rights of shareholders				
6.1	Companies should design a communications policy for promoting effective communication with shareholders and encouraging their participation at general meetings and disclose their policy or a summary of that policy.	Yes	Page 34	ASX CGC 6.1
6.2	Companies should provide the information indicated in the guide to reporting on Principle 6.	Yes	Page 34	ASX CGC 6.2
Principle 7 — Recognise and manage risk				
7.1	Companies should establish policies for the oversight and management of material business risks and disclose a summary of those policies.	Yes	Website, Page 32	ASX CGC 7.1
7.2	The Board should require management to design and implement the risk management and internal control system to manage the company's material business risks and report to it on whether those risks are being managed effectively. The Board should disclose that management has reported to it as to the effectiveness of the company's management of its material business risks.	Yes	Page 32	ASX CGC 7.2
7.3	The Board should disclose whether it has received assurance from the CEO [or equivalent] and the Chief Financial Officer (CFO) [or equivalent] that the declaration provided in accordance with section 295A of the Corporations Act is founded on a sound system of risk management and internal control and that the system is operating effectively in all material respects in relation to financial reporting risks.	Yes	Page 33	ASX CGC 7.3
7.4	Companies should provide the information indicated in the guide to reporting on Principle 7.	Yes	Page 33	ASX CGC 7.4

Corporate Governance Statement

Recommendation		Comply Yes/No	Reference/ explanation	ASX Listing Rule/CGC Recommendations
Principle 8 — Remunerate fairly and responsibly				
8.1	The Board should establish a remuneration committee.	No	Page 28	ASX CGC 8.1
8.2	The remuneration committee should be structured so that it: <ul style="list-style-type: none"> Consists of a majority of independent directors Is chaired by an independent chair Has at least three members 	No	Page 31 Also see remuneration report	ASX CGC 8.2
8.3	Companies should clearly distinguish the structure of nonexecutive directors' remuneration from that of executive directors and senior executives.	Yes	Refer to remuneration report	ASX CGC 8.2
8.4	Companies should provide the information indicated in the guide to reporting on Principle 8.	Yes	Page 34	ASX CGC 8.3

MHM Metals Limited's corporate governance practices were in place throughout the year ended 30 June 2014.

Various corporate governance practices are discussed within this statement. For further information on corporate governance policies adopted by MHM Metals Limited, refer to our website:
<http://www.mhmmetals.com>

Board functions

The Board monitors the business affairs of the Company on behalf of holders of the Company's securities and have formally adopted corporate governance policies which are designed to encourage directors to focus their attention on, amongst other things, accountability, risk management and ethical conduct.

The Board seeks to identify the expectations of the Company's shareholders, as well as other regulatory and ethical expectations and obligations. In addition, the Board is responsible for identifying areas of significant business risk and ensuring arrangements are in place to adequately manage those risks.

To ensure that the Board is well equipped to discharge its responsibilities it has established guidelines for the nomination and selection of directors and for the operation of the Board.

The responsibility for the day-to-day operation and administration of the Company is delegated, by the Board, to the CEO and by them to other senior employees. The Board ensures that this team is appropriately qualified and experienced to discharge their responsibilities and has in place procedures to assess the performance of the CEO and other employees.

Corporate Governance Statement

Board functions (continued)

The Board notes that there is no separate Audit Committee or Nomination & Remuneration Committee. Due to the small size and structure of the Board, separate committees are not considered to add any efficiency. When considering financial matters and matters of nomination & remuneration, the Board functions in accordance with its Audit Committee Charter and Remuneration Committee Charter respectively.

The Board is responsible for ensuring that management's objectives and activities are aligned with the expectations and risks identified by the Board. The Board has a number of mechanisms in place to ensure this is achieved and to this end the Board is ultimately responsible for:

- setting overall financial goals for the Company;
- approving strategies, objectives and plans for the Company's businesses to achieve these goals;
- ensuring that business risks are identified and approving systems and controls to manage those risks and monitor compliance;
- approving the Company's major HR policies and overseeing the development strategies for senior and high performing executives;
- approving financial plans and annual budgets;
- monitoring financial results on an on-going basis;
- monitoring executive management and business performance in the implementation and achievement of strategic and business objectives;
- approving key management recommendations (such as major capital expenditure, acquisitions, divestments, restructuring and funding);
- appointing and removing the CEO and ratifying the appointment and removal of executives reporting directly to the CEO (senior executives);
- reporting to shareholders on the Company's strategic direction and performance including constructive engagement in the development, execution and modification of the Company's strategies;
- overseeing the management of occupational health and safety and environmental performance;
- determining that satisfactory arrangements are in place for auditing the Company's financial affairs;
- meeting statutory and regulatory requirements and overseeing the way in which business risks and the assets of the Company are managed.

Structure of the Board

The skills, experience and expertise relevant to the position of director held by each director in office at the date of the annual report are included in the Directors' report.

Directors of MHM Metals Limited are considered to be independent when they are independent of management and free from any business or other relationship that could materially interfere with — or could reasonably be perceived to materially interfere with — the exercise of their unfettered and independent judgement.

Corporate Governance Statement

Structure of the Board (continued)

In the context of director independence, “materiality” is considered from both the Company and individual director perspective. The determination of materiality requires consideration of both quantitative and qualitative elements. An item is presumed to be quantitatively immaterial if it is equal to or less than 5% of the appropriate base amount. It is presumed to be material (unless there is qualitative evidence to the contrary) if it is equal to or greater than 10% of the appropriate base amount.

Qualitative factors considered include whether a relationship is strategically important, the competitive landscape, the nature of the relationship and the contractual or other arrangements governing it and other factors that point to the actual ability of the director in question to shape the direction of the Group's loyalty.

In accordance with the definition of independence above, and the materiality thresholds set, the following directors of MHM Metals Limited are considered to be independent having regard to the CGC's recommendations:

Name	Position
Iain Kirkwood	Chairman (appointed 15/02/2013)
David Brian Menzies	Non-executive director (appointed 18/12/2013)

Mr Matthew Thomas Keen is the Managing Director and Chief Executive Officer and is therefore not independent.

The Board believes that each of the Directors can make, and do make, quality and independent judgements in the best interests of the Company.

Any Director who has a conflict of interest in relation to a particular item of business must declare their conflict and abstain from voting or participating in Board deliberations to which a conflict of interest relates.

The Board charter gives each director the right, with the prior approval of the Chairman, not to be withheld except in case of an unreasonable request, to seek independent legal and other professional advice at the Company's expense concerning any aspect of the Company's operations or undertakings in order to fulfil his or her duties and responsibilities as a director.

Corporate Governance Statement

Structure of the Board (continued)

The term in office held by each director in office at the date of this report is as follows:

Name	Term in office
Iain Kirkwood	18 months (appointed 15/02/2013)
David Menzies	9 months (appointed 18/12/2013)
Matthew Keen	4 months (appointed 06/06/2013)

For additional details regarding Board appointments, please refer to the Company's website.

Accordingly, the Board considers that the Company's 2 non-executive directors (including the chair) are currently independent and that the Company complies with CGC recommendations 2.1 and 2.2.

Performance

The performance of key executives is reviewed regularly against both measurable and qualitative indicators.

A periodic review of the role of the Board is conducted to assess performance and to examine ways of assisting the Board in performing its duties more effectively. Such a review typically includes:

- (a) comparing the performance of the Board with the requirements of its Charter;
- (b) examination of the Board's interaction with management;
- (c) the nature of information provided to the Board by management; and
- (d) management's performance in assisting the Board to meet its objectives.

A formal performance evaluation for the Board and the Directors has not taken place during the reporting period however the Chairman has, together with the other Directors, informally surveyed the role of the Board and has assessed the performance of the directors. The Directors consider that the Board is functioning well and, at the present time, consider that a more structured review/evaluation process is unlikely to add any material value and that the Board's existing time and resources are better utilised in assisting with the execution of the Company's strategies.

The Board oversees the performance evaluation of the CEO and other senior executives. The evaluation is based on specific criteria, including the business performance of the Company, whether strategic objectives are being achieved and the development of management and personnel. Given the significant restructuring of the operations, which were ongoing throughout the year a performance evaluation for the CEO and other senior employees was not conducted formally. The Board will complete a formal performance evaluation for the CEO and other senior executives against KPIs during the next year.

The board notes that the size Company and the executive team is such that performance is able to be monitored on an ongoing basis.

Under the Company's securities trading policy, an executive or director must not trade in any securities of the Company at any time when they are in possession of unpublished, price-sensitive information in relation to those securities.

Before commencing to trade, an executive must first obtain the approval of the Company Secretary to do so and a director must first obtain approval of the Chairman.

Corporate Governance Statement

Performance (continued)

Only in exceptional circumstances will approval be forthcoming inside of the following periods:

- 1 July until the business day after the release of the full year results;
- 1 January until the business day after the release of the half-yearly results; and
- Any additional periods imposed by the Board from time to time

As required by the ASX listing rules, the Company notifies the ASX of any transaction conducted by directors in the securities of the Company.

Nomination and remuneration

As noted above, the Board has not established a nomination and remuneration committee.

However, the Board reviews nomination and remuneration matters on an ongoing basis and in the case of remuneration at least twice annually.

The Board reviews the corporate governance procedures of the Company and the composition and effectiveness of the Board. In addition to proposing candidates for director appointment for the Board's consideration, the Board reviews fees payable to non-executive Directors and reviews and advises the Board in relation to CEO succession planning.

The primary purpose of the nomination and remuneration reviews are to ensure the Board is fulfilling its responsibilities to shareholders by ensuring that the Board is appropriately structured and comprised of individuals who are best able to discharge the responsibilities of directors. The Board does this by:

- assessing the size, composition, diversity and skills required by the Board to enable it to fulfil its responsibilities to shareholders, having regard to the Company's current and proposed scope of activities;
- assessing the extent to which the required knowledge, experience and skills are represented on the Board;
- establishing processes for the identification of suitable candidates for appointment to the Board;
- overseeing succession planning for the Board and CEO;
- establishing processes for the review of the performance of individual Directors and the Board as a whole;
- assessing the terms of appointment and remuneration arrangements for non-executive Directors.

Audit

The Board has adopted an Audit Committee Charter, a copy of which is set out on the Company's website.

It is the Board's responsibility to ensure that an effective internal control framework exists within the entity. This includes internal controls to deal with both the effectiveness and efficiency of significant business processes, the safeguarding of assets, the maintenance of proper accounting records, and the reliability of financial information as well as non-financial considerations such as the benchmarking of

Corporate Governance Statement

Audit (continued)

operational key performance indicators. The Board has responsibility for establishing and maintaining a framework of internal control and ethical standards.

The Board, where appropriate, seeks additional assurance regarding the reliability of financial information for inclusion in the financial reports.

CGC recommendation 4.2 as to the structure of the audit committee has not been fully complied with during the reporting period as the Board has not established an audit committee.

For additional details regarding the Audit Committee Charter, please refer to our website.

Risk

The Board has continued its proactive approach to risk management. The identification and effective management of risk, including calculated risk-taking is viewed as an essential part of the Company's approach to creating long-term shareholder value.

The Board is responsible for overseeing the establishment and implementation of effective risk management and internal control systems to manage the Company's material business risks and for reviewing and monitoring the Company's application of these systems. In doing so, the Board has taken the view that it is crucial for all Board members to be a part of this process and as such, has not established a separate risk management committee.

Implementation of the risk management system and day-to-day management of risk is the responsibility of the CEO, with the assistance of senior management. The CEO is responsible for regularly reporting directly to the Board on all matters associated with risk management, including whether the Company's material business risks are being managed effectively. In fulfilling his duties, the CEO has unrestricted access to company employees, contractors and records and may obtain independent expert advice on any matter he believes appropriate, with the approval of the Board.

In addition, the Company maintains a number of policies and practices designed to manage specific business risks. These include:

- Audit Committee Charter;
- insurance programs;
- regular budgeting and financial reporting;
- clear limits and authorities for expenditure levels;
- procedures/controls to manage environmental and occupational health and safety matters;
- procedures for compliance with continuous disclosure obligations under the ASX listing rules; and
- procedures to assist with establishing and administering corporate governance systems and disclosure requirements.

Corporate Governance Statement

Risk (continued)

The CEO has reported to the Board as to the effectiveness of the implementation of the Company's risk management and internal control system.

The Company's risk management system is an ongoing process. It is recognised that the level and extent of the risk management system will evolve commensurate with the evolution and growth of the Company's activities. Further information on financial risk management is outlined in Note 2 to the financial statements.

For the purposes of assisting investors to understand better the nature of the risks faced by MHM Metals Limited, the Board has prepared a list of operational risks as part of the Principle 7 disclosures. However the Board notes that this does not necessarily represent an exhaustive list and that it may be subject to change based on underlying market events.

- Inherent uncertainties that exist in adopting any new processes, equipment and technology. The ability to process waste using MHM Metals' existing technology for commercial purposes either at all or at a price that facilitates adoption and use of these products;
- Ability to raise sufficient funds (via the debt or equity capital markets) to fund the Company's business development and expansion strategies from time to time;
- The intellectual property of the Company may become subject to claims;
- Achieving commercial volumes of waste processing sufficient to the levels expected by its customers;
- Failure to achieve commercial levels of sales;
- The occurrence of force majeure events by significant customers or regulatory authorities;
- Increasing costs of operations, including labour costs, materials, suppliers or other items and equipment

As part of its duties, the Board conducts risk-based and routine reviews with the objective of providing assurance on the adequacy of the company's risk framework and the completeness and accuracy of risk reporting by management.

CEO and CFO certification

In accordance with section 295A of the Corporations Act 2001 (Cth), the CEO has provided a written statement to the Board that:

- His view concerning the Company's financial report is founded on a sound system of risk management and internal compliance and control which implements the financial policies adopted by the Board
- The Company's risk management and internal compliance and control system is operating effectively in all material respects

The Board agrees with the views of the ASX on this matter and notes that due to its nature, internal control assurance from the CEO can only be reasonable rather than absolute. This is due to such factors as the need for judgement, the use of testing on a sample basis, the inherent limitations in internal control and because much of the evidence available is persuasive rather than conclusive and therefore is not and cannot be designed to detect all weaknesses in control procedures.

Corporate Governance Statement

Remuneration

It is the Company's objective to provide maximum stakeholder benefit from the retention of a high quality Board and executive team by remunerating directors and key executives fairly and appropriately with reference to relevant employment market conditions. To assist in achieving this objective, the Board links the nature and amount of executive directors' and officers' remuneration to the Company's financial and operational performance. The expected outcomes of the remuneration structure are:

- Retention and motivation of key executives
- Attraction of high quality management to the Company

For a full discussion of the Company's remuneration philosophy and framework and the remuneration received by directors and executives in the current period please refer to the Remuneration Report, which is contained within the Directors' report.

There is no scheme to provide retirement benefits to non-executive directors.

The Board has adopted a policy of prohibiting the entry by the directors or any senior executive into transactions in associated products which limit the economic risk of participating in unvested entitlements under any equity based remuneration scheme.

The Board is responsible for determining and reviewing compensation arrangements for the directors themselves, the CEO and senior management. As previously noted, the Board has not established a remuneration and nominations committee.

Continuous Disclosure

The Board has adopted a continuous disclosure policy which is designed to ensure compliance with ASX listing rule disclosure requirements. A copy of the Company's policy on disclosure is contained on our website.

Shareholder communication policy

Pursuant to CGC Principle 6, MHM Metals' objective is to promote effective communication with its shareholders at all times. MHM Metals Limited is committed to:

- Ensuring that shareholders and the financial markets are provided with full and timely information about MHM Metals Limited's activities in a balanced and understandable way
- Complying with continuous disclosure obligations contained in the ASX listing rules and the Corporations Act 2001 (Cth), in Australia
- Communicating effectively with its shareholders and making it easier for shareholders to communicate with MHM Metals Limited

Corporate Governance Statement

Shareholder communication policy (continued)

To promote effective communication with shareholders and encourage effective participation at general meetings, information is communicated to shareholders:

- Through the release of information to the market via the ASX
- Through the distribution of the annual report and notices of annual general meeting
- Through shareholder meetings and investor relations presentations
- Through letters and other forms of communications directly to shareholders
- By posting relevant information on MHM Metals Limited's website:
<http://www.mhmmetals.com>

The external auditors are required to attend the Annual General Meeting and are available to answer any shareholder questions about the conduct of the audit and preparation of the audit report.

Our shareholder communications policy is contained in the Corporate Governance section of our website.

Diversity

MHM Metals is committed to workplace diversity and has in place a formal diversity policy. We recognise the benefits of diversity where people from different backgrounds can bring fresh ideas and perceptions which make the way work is done more efficient; and products and services more valued.

Diversity includes, but is not limited to, gender, age, ethnicity, religion and cultural background. Diversity also encompasses the many ways people differ in terms of their education, life experience, job function, work experience, personality, location, marital status and carer responsibilities.

Diversity at MHM Metals is about the commitment to equality and the treating of all individuals with respect.

MHM Metals understands that the wide array of perspectives resulting from such diversity promotes innovation and business success which creates value for our customers and shareholders.

To the extent practicable, MHM Metals supports and will address the recommendations and guidance provided in the ASX Corporate Governance Principles and Recommendations

Measures designed to promote diversity at MHM Metals include:

- **Recruitment:** MHM Metals has recruited people from different backgrounds. We believe that our employees from many different cultural, linguistic and national backgrounds provide us with valuable knowledge and a skilled base in order to improve Company performance.
- **Career Development and Promotion :** MHM Metals facilitates equal employment opportunities based on relative ability, performance or potential. All employees are treated fairly and evaluated objectively.
- **Safe Work Environment:** MHM Metals helps to build a safe work environment by taking action against inappropriate workplace and business behaviour that does not value diversity including discrimination, harassment, bullying, victimisation and vilification.

Corporate Governance Statement

Diversity (continued)

- **Development Programs:** MHM Metals is involved in programs such as in-house workplace development programs, mentoring programs, targeted training and development to improve the quality of decision-making, productivity and teamwork. MHM Metals is trying to enhance its customer service and market reputation through a workforce that respects and reflects the diversity of our customers.
- **Flexibility in the Workplace:** MHM Metals has a culture which takes account of domestic responsibilities of its employees.

The Diversity Policy provides for the Board to develop an appointment process for future directors that takes diversity of background into account to fit and enhance the Board skills matrix.

In order to promote the specific objective of gender diversity, the Diversity Policy requires that the selection process for new Board appointments must involve the following steps:

- a short-list identifying potential candidates for the appointment must be compiled and must include at least one female candidate; and
- if, at the end of the selection process, a female candidate is not selected, the Board must be satisfied that there are objective reasons to support its determination.

At the date of this report, there are 2 female employees in the organisation, none of whom are in senior executive or Board positions.

The MHM Metals Board is committed to workplace diversity, with a particular focus on supporting the representation of women at the senior level of MHM Metals management. While there is currently no gender diversity on the Board, the Board is made up of individuals from various professions, cultures, and backgrounds. The Board has not determined to adopt a particular mix of skills and diversity, preferring to have regard to:

- the need for independence;
- the strategic direction and progress of the Company; and
- the geographic spread and diversity of the Company's business.

The Company aims to achieve an appropriate mix of diversity on its Board, in senior management and throughout the organisation. The Board has determined that no measurable objectives will be set until the number of employees and level of activities of the Company increases to a level sufficient to enable meaningful and achievable objectives to be developed.



Deloitte Touche Tohmatsu
A.B.N. 74 490 121 060

550 Bourke Street
Melbourne VIC 3000
GPO Box 78
Melbourne VIC 3001 Australia

30 September 2014

The Board of Directors
MHM Metals Ltd
80 Buckley Grove
Moolap VIC 3221

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Dear Board Members,

MHM Metals Limited

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

As lead audit partner for the audit of the financial statements of MHM Metals Limited for the year ended 30 June 2014, I declare that to the best of my knowledge and belief, there have been no contraventions of:

- (i) the auditor independence requirements of the Corporations Act 2001 in relation to the audit; and
- (ii) any applicable code of professional conduct in relation to the audit.

Yours sincerely,

A handwritten signature in dark ink, appearing to read "Deloitte Touche Tohmatsu".

DELOITTE TOUCHE TOHMATSU

A handwritten signature in dark ink, appearing to read "Chris Biermann".

Chris Biermann
Partner
Chartered Accountants

Financial Reports – 30 June 2014

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MHM Metals Limited is a for-profit listed public company limited by shares incorporated and domiciled in Australia. Its registered office and principal place of business is:

78- 80 Buckley Grove
Moolap VIC 3221

A description of the nature of the Group's operations and its principal activities is included in the review of operations and activities in the Directors' report.

The financial report was authorised for issue by the Directors on 30 September 2014. The Group has the power to amend and reissue the financial report.

Through the use of the Group's website, we have ensured that our corporate reporting is timely, complete, and available globally at minimum cost to the Group. All press releases, financial reports and other information are available at the Shareholders' Centre on the website: www.mhmmetals.com.

Consolidated Statement of Profit or Loss and Other Comprehensive Income
For the year ended 30 June 2014

	Notes	Consolidated 2014 \$	2013 restated \$
Sales revenue	8	7,191,006	4,712,795
Production expenses		(5,853,078)	(5,648,875)
Depreciation	9	(1,947,798)	(1,976,480)
Gross (loss)		(609,870)	(2,912,560)
Interest revenue	8	59,977	213,524
Administrative expenses		(212,259)	(388,067)
Consultancy fees		(41,593)	(142,768)
Impairment expenses	9	(5,838,656)	-
Employee benefit expenses	9	(757,787)	(1,368,355)
Employee entitlements expenses		(14,637)	(56,798)
Insurance expenses		(174,690)	(150,892)
Office accommodation expenses		(100,380)	(256,279)
Professional fees		(220,917)	(159,127)
Legal fees		(261,620)	(174,990)
Rehabilitation expenses	17	(688,300)	-
Write-off of Intangible Assets	14	(471,982)	(1,277,801)
Loss on sale of non-current assets		-	(213,181)
Other expenses	9	(115,773)	(130,347)
Loss before income tax		(9,448,487)	(7,017,641)
Income tax benefit	10	2,556,253	-
Loss after income tax		(6,892,234)	(7,017,641)
Other comprehensive income		-	-
Total comprehensive loss for the year attributable to owners of MHM Metals Ltd		(6,892,234)	(7,017,641)
		Cents	Cents
Loss per share for loss attributable to the ordinary equity holders of the company:			
Basic and diluted loss per share	29	(5.3)	(5.4)

The above Consolidated Statement of Profit or Loss and Other Comprehensive Income should be read in conjunction with the accompanying notes.

MHM Metals Limited

Consolidated Statement of Financial Position

As at 30 June 2014

	Notes	30 June 2014 \$	30 June 2013 restated \$	1 July 2012 restated \$
Assets				
Current assets				
Cash and cash equivalents	11	2,403,479	2,401,883	3,674,755
Trade and other receivables	12	2,379,141	1,390,212	2,605,610
Other assets	13	81,793	81,912	106,197
Total current assets		4,864,413	3,874,007	6,386,562
Non-current assets				
Intangibles	14	-	529,251	1,121,485
Property, plant and equipment	15	4,257,976	10,631,077	10,532,839
Total non-current assets		4,257,976	11,160,328	11,654,324
Total assets		9,122,389	15,034,335	18,040,886
Liabilities				
Current liabilities				
Trade and other payables	16	847,560	461,279	950,863
Borrowings		-	-	114,541
Provisions	17	892,568	129,868	190,401
Other current liabilities	18	-	162,225	370,875
Total current liabilities		1,740,128	753,372	1,626,680
Non-current liabilities				
Provisions	17	3,658	10,126	14,117
Total non-current liabilities		3,658	10,126	14,117
Total liabilities		1,743,786	763,498	1,640,797
Net assets		7,378,603	14,270,837	16,400,089
Equity				
Contributed equity	19	29,846,015	29,846,015	24,991,786
Share based payments reserve	20(a)	2,303,074	2,303,074	2,268,914
Accumulated losses	20(b)	(24,770,486)	(17,878,252)	(10,860,611)
Total equity		7,378,603	14,270,837	16,400,089

The above Consolidated Statement of Financial Position should be read in conjunction with the accompanying notes.

Consolidated Statement of Changes in Equity

For the year ended 30 June 2014

	Notes	Contributed Equity \$	Accumulated Losses \$	Share Based Payments Reserve \$	Total \$
2013					
Balance 1 July 2012 (restated)		24,991,786	(10,860,611)	2,268,914	16,400,089
Loss for the year		-	(7,017,641)	-	(7,017,641)
Total comprehensive loss for the year		-	(7,017,641)	-	(7,017,641)
Share based payments		-	-	34,160	34,160
Shares issued		4,854,229	-	-	4,854,229
Balance 30 June 2013 (restated)		29,846,015	(17,878,252)	2,303,074	14,270,837
2014					
Balance 1 July 2013		29,846,015	(17,878,252)	2,303,074	14,270,837
Loss for the year		-	(6,892,234)	-	(6,892,234)
Total comprehensive loss for the year		-	(6,892,234)	-	(6,892,234)
Share based payments		-	-	-	-
Balance 30 June 2014		29,846,015	(24,770,486)	2,303,074	7,378,603

The above Consolidated Statement of Changes in Equity should be read in conjunction with the accompanying notes.

Consolidated Statement of Cash Flows

For the year ended 30 June 2014

	Notes	Consolidated 2014 \$	2013 \$
Cash flows from operating activities			
Receipts from customers		7,411,952	4,208,978
Payments to suppliers and employees		(7,412,527)	(8,919,492)
Interest received		59,977	213,524
Income tax benefit received		1,387,802	1,596,482
Net cash inflow/(outflow) from operating activities	28	1,447,204	(2,900,508)
Cash flows from investing activities			
Payments for property, plant and equipment		(1,446,274)	(3,113,951)
Proceeds from sale of property, plant and equipment		-	92,791
Exploration and evaluation expenditure		-	(106,916)
Net cash outflow from investing activities		(1,446,274)	(3,128,076)
Cash flows from financing activities			
Proceeds from issues of securities		-	4,854,229
Repayment of borrowings		-	(95,676)
Net cash inflow from financing activities		-	4,758,553
Net decrease in cash and cash equivalents held		930	(1,270,031)
Cash and cash equivalents at the beginning of the financial year		2,401,883	3,674,755
Effects of exchange rate changes on cash and cash equivalents		666	(2,841)
Cash and cash equivalents at the end of the financial year	11	2,403,479	2,401,883

The above Consolidated Statement of Cash Flows should be read in conjunction with the accompanying notes.

Notes to the Consolidated Financial Statements

For the year ended 30 June 2014

1 General Information

MHM Metals Limited (the Company) is a listed public company incorporated in Australia.

The principal activities of the Group consist of aluminium salt slag processing.

2 Application of new and revised Accounting Standards

In the current year, the Group has adopted all of the new and revised Standards and Interpretations issued by the Australian Accounting Standards Board (the AASB) that are relevant to its operations and effective for the current annual reporting period. The adoption of these new and revised Standards and Interpretations has not resulted in any material changes to the company's accounting policies or application of those policies.

Standards and Interpretations issued not yet adopted

At the date of authorisation of the financial statements, the Standards and Interpretations listed below were in issue but not yet effective. It is expected that the adoption of the below Standards and Interpretations will not result in any material changes to the company's accounting policies or application of those policies.

Standard/Interpretation	Effective for annual reporting periods beginning on or after	Expected to be initially applied in the financial year ending
AASB 9 'Financial Instruments', and the relevant amending standards ⁽¹⁾	1 January 2017	30 June 2018
AASB 1031 'Materiality' (2013)	1 January 2014	30 June 2015
AASB 2012-3 'Amendments to Australian Accounting Standards – Offsetting Financial Assets and Financial Liabilities'	1 January 2014	30 June 2015
AASB 2013-3 'Amendments to AASB 136 – Recoverable Amount Disclosures for Non-Financial Assets'	1 January 2014	30 June 2015
AASB 2013-4 'Amendments to Australian Accounting Standards – Novation of Derivatives and Continuation of Hedge Accounting'	1 January 2014	30 June 2015
AASB 2013-5 'Amendments to Australian Accounting Standards – Investment Entities'	1 January 2014	30 June 2015

Notes to the Consolidated Financial Statements

For the year ended 30 June 2014

2 Application of new and revised Accounting Standards (continued)

Standard/Interpretation	Effective for annual reporting periods beginning on or after	Expected to be initially applied in the financial year ending
AASB 2013-9 'Amendments to Australian Accounting Standards – Conceptual Framework, Materiality and Financial Instruments'	1 January 2014	30 June 2015
INT 21 'Levies'	1 January 2014	30 June 2015
AASB 2014-1 'Amendments to Australian Accounting Standards'	1 July 2014	30 June 2015
<ul style="list-style-type: none"> - Part A: 'Annual Improvements 2010–2012 and 2011–2013 Cycles' - Part B: 'Defined Benefit Plans: Employee Contributions (Amendments to AASB 119)' - Part C: 'Materiality' 		
AASB 2014-1 'Amendments to Australian Accounting Standards' – Part D: 'Consequential Amendments arising from AASB 14'	1 January 2016	30 June 2017
AASB 2014-1 'Amendments to Australian Accounting Standards' – Part E: 'Financial Instruments'	1 January 2015	30 June 2016
AASB 14 'Regulatory Deferral Accounts'	1 January 2016	30 June 2017

⁽¹⁾The AASB has issued the following versions of AASB 9 and the relevant amending standards;

AASB 9 'Financial Instruments' (December 2009), AASB 2009- 11 'Amendments to Australian Accounting Standards arising from AASB 9', AASB 2012-6 'Amendments to Australian Accounting Standards – Mandatory Effective Date of AASB 9 and Transition Disclosures'

AASB 9 'Financial Instruments' (December 2010), AASB 2010- 7 'Amendments to Australian Accounting Standards arising from AASB 9 (December 2010)', AASB 2012- 6 'Amendments to Australian Accounting Standards – Mandatory Effective Date of AASB 9 and Transition Disclosure'.

In December 2013 the AASB issued AASB 2013-9 'Amendment to Australian Accounting Standards –

Notes to the Consolidated Financial Statements

For the year ended 30 June 2014

2 Application of new and revised Accounting Standards (continued)

Conceptual Framework, Materiality and Financial Instruments', Part C – Financial Instruments. This amending standard has amended the mandatory effective date of AASB 9 to 1 January 2017. For annual reporting periods beginning before 1 January 2017, an entity may early adopt either AASB 9 (December 2009) or AASB 9 (December 2010) and the relevant amending standards.

At the date of authorisation of the financial statements, the following IASB Standards and IFRIC Interpretations were also in issue but not yet effective, although Australian equivalent Standards and Interpretations have not yet been issued.

Standard/Interpretation	Effective for annual reporting periods beginning on or after	Expected to be initially applied in the financial year ending
Accounting for Acquisitions of Interests in Joint Operations (Amendments to IFRS 11)	1 January 2016	30 June 2017
Clarification of Acceptable Methods of Depreciation and Amortisation (Amendments to IAS 16 and IAS 38)	1 January 2016	30 June 2017
IFRS 15 'Revenue from Contracts with Customers'	1 January 2017	30 June 2018

3 Summary of significant accounting policies

(3.1) Statement of compliance

These general purpose financial statements have been prepared in accordance with the Corporations Act 2001, Australian Accounting Standards and Interpretations of the Australian Accounting Standards Board and International Financial Reporting Standards as issued by the International Accounting Standards Board. The Group is a for-profit entity for financial reporting purposes under Australian Accounting Standards. Material accounting policies adopted in the preparation of these financial statements are presented below and have been consistently applied unless stated otherwise.

These consolidated financial statements have been prepared in accordance with Australian Accounting Standards and interpretations issued by the Australian Accounting Standards Board ("AASB") and the Corporations Act 2001, as appropriate for for-profit oriented entities.

The consolidated financial statements of MHM Metals Limited comply with International Financial Reporting Standards ("IFRS"), as issued by the International Accounting Standards Board ("IASB").

(3.2) Basis of preparation

Historical cost convention

These consolidated financial statements have been prepared under the historical cost convention, as modified by the revaluation of available-for-sale financial assets and financial assets and liabilities (including derivative instruments) at fair value through profit or loss.

Notes to the Consolidated Financial Statements

For the year ended 30 June 2014

3 Summary of significant accounting policies (continued)

Critical accounting judgment and estimates

The preparation of financial statements in conformity with the Group's accounting policies requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in note 5.

Going concern

The financial report has been prepared on a going concern basis which contemplates the continuity of business activities and the realisation of assets and the payment of liabilities in the normal course of business.

The ability of the Company continuing to work in the domestic waste sector treating Salt Slag beyond FY15 is solely dependent on the outcome of decisions by Alcoa and the EPA of Victoria regarding the Alcoa landfill. In the event that the Alcoa landfill opportunity does not eventuate, the Company will activate its plan to clean up the Moolap site including the removal of all legacy stockpiles. With the remaining assets of the Group, the Company will continue to explore other business opportunities.

Parent entity information

In accordance with the Corporations Act 2001, these financial statements present the results of the consolidated entity only. Supplementary information about the parent entity is disclosed in note 32.

Subsidiaries

The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of MHM Metals Limited ("company" or "parent entity") as at 30 June 2014 and the results of all subsidiaries for the year then ended. MHM Metals Limited and its subsidiaries together are referred to in this financial report as the Group or the consolidated entity.

(3.3) Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities (including structured entities) controlled by the Company and its subsidiaries. Control is achieved when the Company:

- has power over the investee;
- is exposed, or has rights, to variable returns from its involvement with the investee; and
- has the ability to use its power to affect its returns.

The Company reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

When the Company has less than a majority of the voting rights of an investee, it has power over the investee when the voting rights are sufficient to give it the practical ability to direct the relevant activities of the investee unilaterally. The Company considers all relevant facts and circumstances in

Notes to the Consolidated Financial Statements

For the year ended 30 June 2014

3 Summary of significant accounting policies (continued)

assessing whether or not the Company's voting rights in an investee are sufficient to give it power, including:

- the size of the Company's holding of voting rights relative to the size and dispersion of holdings of the other vote holders;
- potential voting rights held by the Company, other vote holders or other parties;
- rights arising from other contractual arrangements; and

Any additional facts and circumstances that indicate that the Company has, or does not have, the current ability to direct the relevant activities at the time that decisions need to be made, including voting patterns at previous shareholders' meetings.

Consolidation of a subsidiary begins when the Company obtains control over the subsidiary and ceases when the Company loses control of the subsidiary. Specifically, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated statement of profit or loss and other comprehensive income from the date the Company gains control until the date when the Company ceases to control the subsidiary.

Profit or loss and each component of other comprehensive income are attributed to the owners of the Company and to the non-controlling interests. Total comprehensive income of subsidiaries is attributed to the owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies.

All intragroup assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

(i) Changes in the Group's ownership interests in existing subsidiaries

Changes in the Group's ownership interests in subsidiaries that do not result in the Group losing control over the subsidiaries are accounted for as equity transactions. The carrying amounts of the Group's interests and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to owners of the Company.

When the Group loses control of a subsidiary, a gain or loss is recognised in profit or loss and is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the previous carrying amount of the assets (including goodwill), and liabilities of the subsidiary and any non-controlling interests. All amounts previously recognised in other comprehensive income in relation to that subsidiary are accounted for as if the Group had directly disposed of the related assets or liabilities of the subsidiary (i.e. reclassified to profit or loss or transferred to another category of equity as specified/permitted by applicable AASBs). The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under AASB 139, when applicable, the cost on initial recognition of an investment in an associate or a joint venture.

Notes to the Consolidated Financial Statements

For the year ended 30 June 2014

3 Summary of significant accounting policies (continued)

(3.4) Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision maker. The chief operating decision maker is responsible for allocating resources and assessing performance of the operating segments.

(3.5) Foreign currency translation

(i) Functional and presentation currency

Items included in the financial statements of each of the group's entities are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). The consolidated financial statements are presented in Australian dollars, which is MHM Metals Limited's functional and presentation currency.

(ii) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in profit or loss, except when they are deferred in equity as qualifying cash flow hedges and qualifying net investment hedges or are attributable to part of the net investment in a foreign operation.

Foreign exchange gains and losses that relate to borrowings are presented in profit or loss, within finance costs. All other foreign exchange gains and losses are presented in profit or loss on a net basis within other income or other expenses.

Non-monetary items that are measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined. Translation differences on assets and liabilities carried at fair value are reported as part of the fair value gain or loss. For example, translation differences on non-monetary assets and liabilities such as equities held at fair value through profit or loss are recognised in profit or loss as part of the fair value gain or loss and translation differences on non-monetary assets such as equities classified as available-for-sale financial assets are recognised in other comprehensive income.

(iii) Group companies

The results and financial position of foreign operations (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- Assets and liabilities for each statement of financial position presented are translated at the closing rate at the date of that statement on financial position
- Income and expenses for each profit or loss and other comprehensive income are translated at average exchange rates (unless this is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions), and

Notes to the Consolidated Financial Statements

For the year ended 30 June 2014

3 Summary of significant accounting policies (continued)

- All resulting exchange differences are recognised in other comprehensive income.

On consolidation, exchange differences arising from the translation of any net investment in foreign entities, and of borrowings and other financial instruments designated as hedges of such investments, are recognised in other comprehensive income. When a foreign operation is sold or any borrowings forming part of the net investment are repaid, the associated exchange differences are reclassified to profit or loss, as part of the gain or loss on sale.

Goodwill and fair value adjustments arising on the acquisition of a foreign operation are treated as assets and liabilities of the foreign operation and translated at the closing rate.

(3.6) Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable. Amounts disclosed as revenue are net of returns, trade allowances and duties and taxes paid.

The Group recognises revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the entity and specific criteria have been met for each of the Group's activities as described below. The amount of revenue is not considered to be reliably measurable until all contingencies relating to the sale have been resolved. The Group bases its estimates on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement.

Revenue is recognised for the major business activities as follows:

(i) Interest income

Interest income is recognised on a time proportion basis using the effective interest method. When a receivable is impaired, the Group reduces the carrying amount to its recoverable amount, being the estimated future cash flow discounted at the original effective interest rate of the instrument, and continues unwinding the discount as interest income. Interest income on impaired loans is recognised using the original effective interest rate.

(ii) Tolling income

The group operates a toll-free structure with Alcoa and Sims for recycling of salt slag, non-salt slag and dross. Revenue from tolls is recognised in the accounting period in which the slag and dross are received by the group. Recognition of revenue from Sims is deferred to the extent that metal recovered from the process has not been returned as per the contract.

(iii) Sale of goods

The group records revenue in relation to the sale of returned aluminium and non-metallic products when the significant risks and rewards of ownership have transferred to the buyer, the group retains no continuing involvement nor control over the goods, the amount can be measured reliably, and it is probable that the economic benefits will flow to the group.

Notes to the Consolidated Financial Statements

For the year ended 30 June 2014

3 Summary of significant accounting policies (continued)

(3.7) Income tax

The income tax expense or benefit for the period is the tax payable on the current period's taxable income based on the national income tax rate for each jurisdiction adjusted by changes in deferred tax assets and liabilities attributable to temporary differences and to unused tax losses.

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the end of the reporting period in the countries where the company's subsidiaries and associates operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the end of the reporting period and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred tax assets are recognised for deductible temporary differences and unused tax losses only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

Deferred tax liabilities and assets are not recognised for temporary differences between carrying amount and tax bases of investments in controlled entities where the parent entity is able to control the timing of the reversal of the temporary differences and it is probable that the differences will not reverse in the foreseeable future.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax asset and liabilities and when the deferred tax balances relate to the same taxation authority. Current tax assets and tax liabilities are offset where the entity has a legally enforceable right to offset and intends to either settle on a net basis, or to realise the asset and settle the liability simultaneously.

Current and deferred tax is recognised in profit and loss, except to the extent that it relates to items recognised in other comprehensive income or directly in equity, respectively.

If the group recognises acquired deferred tax assets after the initial acquisition accounting is completed there will no longer be any adjustment to goodwill. As a consequence, the recognition of the deferred tax asset will increase the group's net profit after tax.

Research and Development tax offsets are recognised as an income tax benefit when it is probable that the future economic benefits will flow to the group and the value can be measured reliably.

Notes to the Consolidated Financial Statements

For the year ended 30 June 2014

3 Summary of significant accounting policies (continued)

MHM Metals Limited and its wholly-owned Australian controlled entities have implemented the tax consolidation legislation. As a consequence, these entities are taxed as a single entity and the deferred tax assets and liabilities of these entities are set off in the consolidated financial statements.

(3.8) Impairment of assets

Goodwill and intangible assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment or more frequently if events or changes in circumstances indicate that they might be impaired. Other assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows which are largely independent of the cash inflows from other assets or groups of assets (cash-generating units). Non-financial assets other than goodwill that have been impaired are reviewed for possible reversal of the impairment at each reporting date.

(3.9) Cash and cash equivalents

For statement of cash flow presentation purposes, cash and cash equivalents includes cash on hand, deposits held at call with financial institutions, other short-term, highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value, and bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities on the statement of financial position.

(3.10) Trade and other receivables

Trade receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. Settlement terms for trade receivables vary between 30 and 90 days. They are presented as current assets unless collection is not expected for more than 12 months after the reporting date.

Collectability of trade receivables is reviewed on an ongoing basis. Debts which are known to be uncollectible are written off by reducing the carrying amount directly. An allowance account (provision for impairment of trade receivables) is used when there is objective evidence that the group will not be able to collect all amounts due according to the original terms of the receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments (more than 30 days overdue) are considered indicators that the trade receivable is impaired. The amount of the impairment allowance is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. Cash flows relating to short-term receivables are not discounted if the effect of discounting is immaterial.

The amount of the impairment loss is recognised in profit or loss within other expenses. When a trade receivable for which an impairment allowance had been recognised becomes uncollectible in a

Notes to the Consolidated Financial Statements

For the year ended 30 June 2014

3 Summary of significant accounting policies (continued)

subsequent period, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against other expenses in profit or loss.

(3.11) Investments and other financial assets

Classification

(i) Investments

The Group classifies its investments in the following categories: financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments and available-for-sale financial assets. The classification depends on the purpose for which the investments were acquired. Management determines the classification of its investments at initial recognition and, in the case of assets classified as held-to-maturity, re-evaluates this designation at each reporting date.

(ii) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for those with maturities greater than 12 months after reporting date which are classified as non-current assets. Loans and receivables are included in trade and other receivables in the statement of financial position (note 12).

Recognition and derecognition

Regular purchases and sales of financial assets are recognised on trade-date - the date on which the Group commits to purchase or sell the asset. Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets carried at fair value through profit or loss are initially recognised at fair value and transaction costs are expensed in profit or loss. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the Group has transferred substantially all the risks and rewards of ownership.

When securities classified as available-for-sale are sold, the accumulated fair value adjustments recognised in equity are included in the statement of comprehensive income as gains and losses from investment securities.

Subsequent measurement

Loans and receivables are carried at amortised cost using the effective interest method.

Details on how the fair value of financial instruments is determined are disclosed in note 3.12.

(3.12) Fair value estimation

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Group takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these consolidated

Notes to the Consolidated Financial Statements

For the year ended 30 June 2014

3 Summary of significant accounting policies (continued)

financial statements is determined on such a basis, except for share-based payment transactions that are within the scope of AASB 2, leasing transactions that are within the scope of AASB 117, and

measurements that have some similarities to fair value but are not fair value, such as net realisable value in AASB 2 or value in use in AASB 136.

In addition, for financial reporting purposes, fair value measurements are categorised into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and
- Level 3 inputs are unobservable inputs for the asset or liability

(3.13) Property, plant and equipment

Plant and equipment is stated at historical cost less depreciation and impairment. Historical costs include expenditure that is directly attributable to the acquisition of the items. Cost may also include transfers from equity of any gains/losses on qualifying cash flow hedges of foreign currency purchases of property, plant and equipment.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. General repairs and maintenance are charged to profit or loss during the reporting period in which they are incurred.

Depreciation on other assets is calculated using the straight-line method to allocate their cost or revalued amounts, net of their residual values, over their estimated useful lives, as follows:

- Plant & equipment 4 – 10 years
- Motor vehicles 8 – 12 years
- Buildings 40 years

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each reporting date.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (note 3.8).

Gains and losses on disposals are determined by comparing proceeds with carrying amount. These are included in profit or loss in the period the asset is disposed of.

(3.14) Trade and other payables

These amounts represent liabilities for goods and services provided to the Group prior to the end of financial year which are unpaid. The amounts are unsecured and are usually paid within 30 days of recognition.

Notes to the Consolidated Financial Statements

For the year ended 30 June 2014

3 Summary of significant accounting policies (continued)

(3.15) Borrowings

Borrowings are initially recognised at fair value, net of transaction costs incurred. Borrowings are subsequently measured at amortised cost. Any difference between the proceeds (net of transaction costs) and the redemption amount is recognised in profit or loss over the period of the borrowings using the effective interest method. Fees paid on the establishment of loan facilities, which are not an incremental cost relating to the actual draw-down of the facility, are recognised as prepayments and amortised on a straight-line basis over the term of the facility.

Borrowings are removed from the statement of financial position when the obligation specified in the contract is discharged, cancelled or expired. The difference between the carrying amount of a financial liability that has been extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognised in other income or other expenses.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the reporting date.

(3.16) Borrowing costs

Borrowing costs incurred for the construction of any qualifying asset are capitalised during the period of time that is required to complete and prepare the asset for its intended use or sale. Other borrowing costs are expensed.

(3.17) Employee benefits

(i) Wages and salaries, annual leave and sick leave

Liabilities for wages and salaries, including non-monetary benefits, annual leave and accumulating sick leave expected to be settled within 12 months of the reporting date are recognised in other payables in respect of employees' services up to the reporting date and are measured at the amounts expected to be paid when the liabilities are settled.

(ii) Long service leave

The liability for long service leave is recognised in the provision for employee benefits and measured as the present value of expected future payments to be made in respect of services provided by employees up to the reporting date using the projected unit credit method. Consideration is given to expected future wage and salary levels, experience of employee departures and periods of service. Expected future payments are discounted using market yields at the reporting date on national government bonds with terms to maturity and currency that match, as closely as possible, the estimated future cash outflows.

(iii) Share-based payments

Share-based compensation benefits are provided to employees via the MHM Metals Employee Option Plan. Information relating to these schemes is set out in note 30.

The fair value of options granted under the MHM Metals Employee Option Plan is recognised as an employee benefit expense with a corresponding increase in equity. The fair value is measured at grant

Notes to the Consolidated Financial Statements

For the year ended 30 June 2014

3 Summary of significant accounting policies (continued)

date and recognised over the period during which the employees become unconditionally entitled to the options.

The fair value at grant date is independently determined using a Black-Scholes option pricing model that takes into account the exercise price, the term of the option, the impact of dilution, the share price at grant date and expected price volatility of the underlying scheme and the risk free interest rate for the term of the option.

Non-market vesting conditions are included in assumptions about the number of options that are expected to vest. The total expense is recognised over the vesting period, which is the period over which all of the specified vesting conditions are to be satisfied. At the end of each period, the entity revises its estimates of the number of options that are expected to vest based on the non-marketing vesting conditions. It recognises the impact of the revision to original estimates, if any, in profit or loss, with a corresponding adjustment to equity.

(3.18) Contributed equity

Ordinary shares are classified as equity.

Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

(3.19) Earnings per share

(i) Basic earnings per share

Basic earnings per share is calculated by dividing the result attributable to equity holders of the group, excluding any costs of servicing equity other than ordinary shares, by the weighted average number of ordinary shares outstanding during the financial year.

(ii) Diluted earnings per share

Diluted earnings per share adjusts the figures used in the determination of basic earnings per share to take into account the after income tax effect of interest and other financing costs associated with dilutive potential ordinary shares and the weighted average number of shares assumed to have been issued for no consideration in relation to dilutive potential ordinary shares.

(3.20) Goods and services tax (GST)

Revenues, expenses and assets are recognised net of the amount of associated GST, unless the GST incurred is not recoverable from the taxation authority. In this case it is recognised as part of the cost of acquisition of the asset or as part of the expense.

Receivables and payables are stated inclusive of the amount of GST receivable or payable. The net amount of GST recoverable from, or payable to, the taxation authority is included with other receivables or payables in the statement of financial position.

Notes to the Consolidated Financial Statements

For the year ended 30 June 2014

3 Summary of significant accounting policies (continued)

Cash flows are presented on a gross basis. The GST components of cash flows arising from investing or financing activities which are recoverable from, or payable to the taxation authority, are presented as operating cash flow.

(3.21) Rehabilitation Provisions

The rehabilitation provision is based on the group's best estimate of the present value of the expected economic outflow required to settle the obligation. The rehabilitation provision is reviewed at each reporting period to take account of changes in the group's estimates. All changes in estimates are recorded via the statement of profit or loss and other comprehensive income in the period that the change occurs.

(3.22) Reclassification of prior year items on statement of profit or loss and other comprehensive income and statement of financial position

Comparatives have been reclassified to be consistent with the current year presentation. The reclassification has the following impact on the results presented for the year ended 30 June 2013.

Administrative expenses increased by \$278,624
Employee benefit costs increased by \$126,217
Office accommodation expense increased by \$26,874
Legal fees increased by \$174,990
Other income and expenses reduced by \$606,705

In the statement of financial position at 1 July 2012 and 30 June 2013, USA Engineering and Design plans of \$489,061 was reclassified from Plant and Equipment and presented within Intangible Assets.

Refer to Note 15 for details on restatement of prior period amounts within the statement of financial position.

4 Financial risk management

Overview

The Group has exposure to the following risks from the use of financial instruments:

- credit risk;
- liquidity risk;
- market risk (including interest rate risk and price risk); and
- capital management

This note presents information about the Group's exposure to each of the above risks, their objectives, policies and processes for measuring and managing risk, and the management of capital.

The Board of Directors has overall responsibility for the establishment and oversight of the risk management framework. Management monitors and manages the financial risks relating to the operations of the group through regular reviews of the risks.

Notes to the Consolidated Financial Statements

For the year ended 30 June 2014

4 Financial risk management (continued)

Credit risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Group's receivables from customers and investment securities.

(i) Investments

The Group limits its exposure to credit risk by only investing in liquid securities and only with counterparties that have an acceptable credit rating.

(ii) Trade and other receivables

The management does not expect any counterparty to fail to meet its obligations.

Presently, the Group undertakes aluminium salt slag processing activities exclusively in Australia. At reporting date there were no significant concentrations of credit risk.

Exposure to credit risk

The carrying amount of the Group's financial assets represents the maximum credit exposure. The Group's maximum exposure to credit risk at the reporting date was:

	Consolidated	
	2014	2013
	\$	\$
Financial assets		
Cash and cash equivalents	2,403,479	2,401,883
Trade receivables	1,162,561	1,335,273
	<u>3,566,040</u>	<u>3,737,156</u>

Trade receivables as at 30 June 2014 have terms between 30 and 90 days. The customers have not previously breached or defaulted on payment on any occasion.

The credit quality of cash assets can be assessed by reference to external credit ratings as supplied by Standard & Poor's (S&P):

	Consolidated	
	2014	2013
	\$	\$
Cash at bank and short-term bank deposits		
AA-	2,375,956	2,378,133
A		-
BBB+	27,523	23,750
	<u>2,403,479</u>	<u>2,401,883</u>

(iii) Guarantees

Group policy is to provide financial guarantees only to wholly-owned subsidiaries. The guarantees on issue at 30 June 2014 are \$Nil (2013: \$58,330).

Notes to the Consolidated Financial Statements

For the year ended 30 June 2014

4 Financial risk management (continued)

Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. The Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation.

The Group manages liquidity risk by maintaining adequate reserves by continuously monitoring forecast and actual cash flows.

The Group does not anticipate a need to raise additional capital in the next 12 months to meet forecasted operational activities. The decision on how the Group will raise future capital will depend on market conditions existing at that time.

Typically the Group ensures that it has sufficient cash on demand to meet expected operational expenses for a period of 60 days, including the servicing of financial obligations; this excludes the potential impact of extreme circumstances that cannot reasonably be predicted, such as natural disasters.

The following are the contractual maturities of financial liabilities, including estimated interest payments and excluding the impact of netting agreements:

Consolidated 2014	Carrying Amount \$	Contractual Cash Flows \$	6 months or less \$	6 to 12 months \$	1 to 2 years \$	Over 2 years \$
Credit cards	2,342	2,342	2,342	-	-	-
Trade and other payables	845,218	845,218	845,218	-	-	-
	847,560	847,560	847,560	-	-	-

Consolidated 2013	Carrying Amount \$	Contractual Cash Flows \$	6 months or less \$	6 to 12 months \$	1 to 2 years \$	Over 2 years \$
Credit cards	22,206	22,206	22,206	-	-	-
Trade and other payables	439,073	439,073	439,073	-	-	-
	461,279	461,279	461,279	-	-	-

Market Risk

(i) Foreign exchange risk

The Group operations are limited to domestic activities within Australia. The Group has an investment in the United States of America with the view to future operations and is exposed to foreign exchange risk arising from exposure to the US dollar.

Foreign exchange risk arises from future commercial transactions and recognised assets and liabilities denominated in a currency that is not the Group's functional currency. The Group's exposure to this risk is minimised through the use of offshore bank accounts.

Notes to the Consolidated Financial Statements

For the year ended 30 June 2014

4 Financial risk management (continued)

The Group's exposure to foreign currency risk at the end of the reporting period, expressed in Australian dollars, was as follows:

	2014	2013
Consolidated	AUD \$	AUD \$
Cash and cash equivalents	21,585	49,702
Property, plant and equipment	1,064,385	1,647,666

Group sensitivity

The Group's results would not be materially different due to changes in exchange rates.

(ii) Price risk

The Group is not exposed to equity securities price risk as it holds no investments in securities classified on the statement of financial position as either available-for-sale or at fair value through the profit or loss. The Group is not exposed directly to commodity price risk.

(iii) Interest rate risk

The Group's exposure to interest rate risk and the effective weighted average interest rate for classes of financial assets is set out below:

	2014		2013	
Consolidated	Weighted average interest rate	Balance AUD \$	Weighted average interest rate	Balance AUD \$
Variable interest rate: Cash and cash equivalents	0.28%	353,479	0.29%	130,560
Fixed interest rate Cash and cash equivalents	4.22%	2,050,000	4.23%	2,271,323
		2,403,479		2,401,883

The Group has interest-bearing assets; a change in interest rates would not have a material impact on the results.

Group sensitivity

At 30 June 2014, if interest rates had changed by +/- 80 basis points from the year-end rates with all other variables held constant, post-tax profit for the year would have been \$19,221 lower/higher (2013: \$24,304 lower/higher), mainly as a result of higher/lower interest income from cash and cash equivalents. Equity would have been \$19,221 lower/higher mainly as a result of higher/lower interest income from cash and cash equivalents.

Fair values

The fair value of financial assets and financial liabilities must be estimated for recognition and measurement or for disclosure purposes.

Notes to the Consolidated Financial Statements

For the year ended 30 June 2014

4 Financial risk management (continued)

Fair values versus carrying amounts

The fair values of financial assets and liabilities, together with the carrying amounts shown in the statement of financial position, are as follows:

The carrying amounts of cash and cash equivalents, trade receivables and payables approximate their fair values due to the short-term nature. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the group for similar financial instruments. The fair value of current borrowings approximates the carrying amount, as the impact of discounting is not significant.

Capital Management

The Group's policy is to maintain an adequate capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business.

There were no changes in the Group's approach to capital management during the year.

Neither the Company nor any of its subsidiaries are subject to externally imposed capital requirements.

5 Critical accounting estimates and judgements

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that may have a financial impact on the Group and that are believed to be reasonable under the circumstances.

Critical accounting estimates and assumptions

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. There were no estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

(a) Share based payments

The Group uses the Black-Scholes option pricing model in accounting for its share-based payments. The Black-Scholes model takes into account the exercise price, the term of the option, the impact of dilution, the share price at grant date and expected price volatility of the underlying scheme and the risk free interest rate for the term of the option. The fair value of options granted under the MHM Metals Employee Option Plan is recognised as an employee benefit expense with a corresponding increase in equity. The fair value is measured at grant date and recognised over the period during which the employees become unconditionally entitled to the options. Refer to note 30 for further information about the Employee Option Plan.

(b) Deferred revenue

The Group recognises amounts received from customers as deferred revenue to the extent of work yet to be completed as prescribed by the tolling agreement in place. The fair value of the deferred revenue is measured based on the cost of processing the material in order to recover the metal required to be returned to the customers. The amount recognised is shown in note 18.

(c) Impairment of assets

The Group reviews assets for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount

Notes to the Consolidated Financial Statements

For the year ended 30 June 2014

5 Critical accounting estimates and judgements (continued)

by which the asset's carrying amount exceeds its recoverable amount. This loss is shown in notes 7, 9, 14 and 15.

(d) Deferred tax

The Group recognises deferred tax assets in respect to temporary differences and unused tax losses to the extent that it is probable that future taxable amounts will be available to utilise those temporary differences and losses. Refer to note 10 for details.

(e) Estimation of useful lives of assets

The Group determines the estimated useful lives and related depreciation and amortisation charges for its property, plant and equipment and finite life intangible assets. The useful lives could change significantly as a result of technical innovations or some other event. The depreciation and amortisation charge will increase where the useful lives are less than previously estimated lives, or technically obsolete or non-strategic assets that have been abandoned or sold will be written down or off.

6 Segment information

Management has determined the operating segments based on reports reviewed by the strategic steering committee, the chief operating decision maker.

The Group has one only reporting segment, aluminium salt slag processing. Although the Group owns property in Kentucky, USA, at present the Group operates only in Australia.

Notes to the Consolidated Financial Statements

For the year ended 30 June 2014

7 Impairment expense

As a result of the announcement from Alcoa Inc. (refer ASX release 20 February 2014) the directors' have identified that the carrying amount of the Moolap property plant and equipment exceeded the recoverable amount and was required to be impaired by \$5,838,656. The recoverable amount of the relevant assets has been determined on the basis of their value in use, which was higher than the estimated fair value less costs to dispose, and a discount rate of 11.25%.

	Consolidated	
	2014	2013
	\$	\$
Impairment of property, plant and equipment	5,838,656	-

Sensitivity of Key Inputs

Key inputs in the determination of the value in use which have a reasonable probability of the actual outcome differing from the group's estimate relates to the salvage value of the property, plant and equipment. A 20% decrease/increase in the expected salvage value would result in a corresponding increase/decrease of \$312,000 in the impairment expense being recorded.

No other inputs have a reasonable probability of the actual outcome materially differing from the group's estimate.

8 Revenue and other income

	Consolidated	
	2014	2013
	\$	\$
Sales revenue		
Revenue from rendering of services	7,028,145	4,679,403
Revenue from sale of goods	162,861	33,392
	<u>7,191,006</u>	<u>4,712,795</u>
Interest received	59,977	213,524
	<u>7,250,983</u>	<u>3,971,448</u>

Notes to the Consolidated Financial Statements

For the year ended 30 June 2014

	Consolidated	
	2014	2013
	\$	\$
<hr/>		
9 Expenses		
Loss before income tax includes the following expenses:		
Depreciation and impairment		
Land and buildings	10,513	17,707
Plant and equipment	1,865,615	1,926,260
Motor vehicles	14,401	32,513
Intangibles	57,269	-
Impairment of intangible assets	471,982	1,277,801
Impairment of production assets	5,838,656	-
	<hr/>	<hr/>
	8,258,436	3,254,281
Employee benefit expense		
Defined contribution superannuation expense	244,486	230,030
Salaries, fees and other benefits	3,055,939	2,296,304
	<hr/>	<hr/>
	3,300,425	2,526,334
Amount classified as production expense	(2,542,638)	(1,122,100)
Amount capitalised – exploration and evaluation	-	(35,879)
	<hr/>	<hr/>
	757,787	1,368,355
Other expenses		
Financing costs	-	10,637
Foreign exchange loss/(gain)	56,442	(85,522)
Motor vehicle expenses	26,520	19,207
Repairs	7,766	43,706
Travel	25,045	142,319
	<hr/>	<hr/>
	115,773	130,347

Notes to the Consolidated Financial Statements

For the year ended 30 June 2014

	Consolidated	
	2014	2013
	\$	\$
10 Income tax benefit/ (expense)		
(a) Income tax benefit/(expense)		
Current tax	2,556,253	-
(b) Numerical reconciliation of income tax expense to prima facie tax payable		
Loss before income tax	(9,448,487)	(7,017,641)
Prima facie income tax at 30%	(2,834,546)	(2,105,292)
Tax effect of amounts which are not deductible (taxable) in calculating taxable income:		
Entertainment	141	2,507
Options expense	-	10,248
Temporary differences arising from foreign tax losses not recognised	-	201,703
Difference in overseas tax rate	-	(27,462)
Temporary differences and tax losses not recognised	2,834,405	2,000,510
Current tax benefit due to R&D tax offset	1,168,451	-
Prior year under/over due to R&D tax offset	1,387,802	-
Income tax expense/(benefit)	2,556,253	-
(c) Tax losses		
Unused Australian tax losses for which no deferred tax asset has been recognised	9,956,409	7,045,593
Potential tax benefit at 30%	2,986,923	2,113,678
A deferred tax asset has not been recognised in respect of the unused Australian tax losses because it is not probable that future taxable profit will be available against which the group can utilise the benefits. Additionally, these losses are subject to further review by the Group to determine if they satisfy the necessary legislative requirements under the income tax legislation for the carry forward and recoupment of tax losses.		
Unused foreign tax losses for which no deferred tax asset has been recognised	1,148,868	986,762
Potential tax benefit at 39% (US Federal & State Taxes)	448,058	384,837
(d) Temporary differences		
Temporary differences for which no deferred tax asset has been recognised	7,743,556	1,417,092
Potential tax benefit at 30%	2,323,067	425,128

Notes to the Consolidated Financial Statements

For the year ended 30 June 2014

	Consolidated	
	2014	2013
	\$	\$

11 Cash and cash equivalents

Cash at bank and on hand	2,403,479	2,401,883
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(a) Interest rate risk exposure

The Group's exposure to interest rate risk is discussed in note 4.

(b) Undrawn cash facilities

The Group has no undrawn borrowing facility at 30 June 2014 (2013: \$91,670).

12 Trade and other receivables

Trade receivables	1,162,561	1,335,273
R&D tax offset refund	1,168,451	-
Other receivables	48,129	54,939
	<u>2,379,141</u>	<u>1,390,212</u>

(a) Other receivables

These amounts generally arise from transactions outside the usual operating activities of the Group. Interest may be charged at commercial rates where the terms or repayment exceed six months. Collateral is not normally obtained.

(b) Interest rate risk

Information about the Group's exposure to interest rate risk in relation to trade and other receivables is provided in note 4.

(c) Impaired receivables and receivables past due

None of the current receivables are impaired or past due but not impaired.

(d) Fair value and credit risk

Due to the short-term nature of these receivables, their carrying amount approximates their fair value.

The maximum exposure to credit risk at the reporting date is the carrying amount of each class of receivables mentioned above. Refer to note 4 for more information on the risk management policy of the Group and the credit quality of the entity's trade receivables.

Notes to the Consolidated Financial Statements

For the year ended 30 June 2014

	Consolidated	
	2014	2013
	\$	\$
13 Other assets		
Prepaid office accommodation expenses ^(a)	-	4,240
Prepaid insurance expenses ^(b)	81,793	77,675
	<u>81,793</u>	<u>81,912</u>

(a) Prepaid office accommodation expenses are amortised over the term of the lease agreement it relates to.

(b) Prepaid insurance expenses are amortised over the life of the policies it relates to.

14 Intangibles

Intangibles

Exploration and evaluation – costs less amounts written off	-	40,190
Engineering and design – costs less accumulated depreciation	-	489,061
	<u>-</u>	<u>529,251</u>
Reconciliation		
At the beginning of the period	529,251	1,610,546
Expenditure during the period	-	98,820
Amortisation capitalised during the period	-	22,686
Amortisation	(57,629)	-
Engineering and Design written off	(471,982)	-
Exploration Expenditures written off	-	(1,202,801)
	<u>-</u>	<u>529,251</u>

The Board determined that the Engineering and Design plans were not expected to be recovered through use or sale and has written off the full amount at 30 June 2014.

Notes to the Consolidated Financial Statements

For the year ended 30 June 2014

	Consolidated	
	2014	2013
	\$	\$
<hr/>		
15 Property, plant and equipment		
Land and buildings		
Land and buildings – at cost	2,283,539	2,440,576
Less: Accumulated depreciation	(27,933)	(17,707)
	<u>2,255,606</u>	<u>2,422,869</u>
Reconciliation		
At the beginning of the year	2,422,869	2,300,320
Exchange differences	(50,837)	65,640
Additions	-	56,909
Depreciation (Note 9)	(10,513)	-
Transfer	(106,363)	-
Closing net book value	<u>2,255,606</u>	<u>2,422,869</u>
Plant improvements		
Plant improvements – at cost	-	1,633,946
	<u>-</u>	<u>1,633,946</u>
Reconciliation		
At the beginning of the year	1,633,946	184,457
Exchange Differences	(39,803)	53,941
Additions	-	1,395,548
Transfers	(1,594,143)	-
Closing net book value	<u>-</u>	<u>1,633,946</u>
Plant and equipment		
Plant and equipment – at cost	9,484,721	10,625,778
Less: Accumulated depreciation and impairment	(7,495,748)	(4,079,314)
	<u>1,988,973</u>	<u>6,546,464</u>

Notes to the Consolidated Financial Statements

For the year ended 30 June 2014

	Consolidated	
	2014	2013
	\$	\$
15 Property, plant and equipment (continued)		
Reconciliation		
At the beginning of the year	6,546,464	7,353,851
Exchange differences	-	871
Additions	1,446,274	1,415,508
Disposals	-	(182,113)
Transfers	1,700,506	-
Depreciation (Note 9)	(1,865,615)	(1,966,583)
Impairment (Note 9)	(5,838,656)	(75,000)
Closing net book value	<u>1,988,973</u>	<u>6,546,464</u>
Motor vehicles		
Motor vehicles – at cost	72,506	72,506
Less: Accumulated depreciation	(59,109)	(44,708)
	<u>13,397</u>	<u>27,798</u>
Reconciliation		
At the beginning of the year	27,798	205,150
Exchange differences	-	(148)
Disposals	-	(144,691)
Depreciation (Note 9)	(14,401)	(32,513)
Closing net book value	<u>13,397</u>	<u>27,798</u>
Land & Buildings	2,255,606	2,422,869
Plant Improvements	-	1,633,946
Plant & Equipment	1,988,973	6,546,464
Motor Vehicles	13,397	27,798
	<u>4,257,976</u>	<u>10,631,077</u>

In accordance with AASB 108 'Accounting Policies, Changes in Accounting Estimates and Errors', the prior period has been restated.

The adjustment reduces the opening written down value of Property, plant and equipment by \$390,001 at 30 June 2013 and the same amount at 1 July 2012. This increases accumulated losses by the same amount. This impact on the comparative period's loss per share was not material.

This represents depreciation not charged correctly in the years ended 30 June 2012; any adjustment to other prior periods is not material to the financial statements.

Notes to the Consolidated Financial Statements

For the year ended 30 June 2014

	Consolidated	
	2014	2013
	\$	\$

16 Trade and other payables

Trade payables	833,051	431,819
GST payables	14,509	29,460
	<u>847,560</u>	<u>461,279</u>

Trade and other payables are non-interest bearing liabilities stated at cost and settled within 30 days. Amounts not expected to be settled within 12 months: \$Nil.

17 Provisions

Employee benefits – current	204,268	129,868
Employee benefits – non-current	3,658	10,126
Rehabilitation – current	688,300	-
	<u>896,226</u>	<u>139,994</u>

18 Other current liabilities

Unearned Revenue – see note 3.6	-	162,225
	<u>-</u>	<u>162,225</u>

19 Contributed equity

(a) Contributed Equity	30 June 2014 Number	30 June 2013 Number	30 June 2014 \$	30 June 2013 \$
Ordinary shares – fully paid	130,218,145	130,218,145	29,816,015	29,816,015
Options – unlisted	4,990,000	6,990,000	30,000	30,000
			<u>29,846,015</u>	<u>29,846,015</u>

(b) Ordinary shares

Ordinary shares entitle the holder to participate in dividends and the proceeds on winding up of the company in proportion to the number of and amounts paid on the shares held. On a show of hands every holder of ordinary shares present at a meeting in person or by proxy, is entitled to one vote, and upon a poll each share is entitled to one vote.

During the year ended 30 June 2014 no fully paid ordinary shares were issued.

Notes to the Consolidated Financial Statements

For the year ended 30 June 2014

19 Contributed equity (continued)

(c) Options

At the end of the -year, options over ordinary shares on issue are as shown below:

- 40,000 unlisted options exercisable at 25 cents and expiry 9 October 2014;
- 300,000 unlisted options exercisable at 100 cents and expiring 5 November 2014;
- 1,900,000 unlisted options exercisable at 28 cents and expiring 30 November 2014;
- 100,000 unlisted options exercisable at 28 cents and expiring 4 January 2015;
- 150,000 unlisted options exercisable at 85 cents and expiring 6 October 2015;
- 300,000 unlisted options exercisable at 180 cents and expiring 20 June 2016;
- 150,000 unlisted options exercisable at 100 cents and expiring 30 June 2016;
- 100,000 unlisted options exercisable at 126 cents and expiring 23 August 2016;
- 1,200,000 unlisted options exercisable at 171 cents and expiring 30 November 2016;
- 150,000 unlisted options exercisable at 135 cents and expiring 14 February 2017;
- 500,000 unlisted options exercisable at 100 cents and expiring 18 July 2017; and
- 100,000 unlisted options exercisable at 45 cents and expiring 13 November 2017.

Date	Details	Number of options	Issue price \$	\$
At the beginning of the period		6,990,000	-	30,000
Expired		(2,000,000)		-
30 June 2014		<u>4,990,000</u>		<u>30,000</u>

(d) Movement in ordinary share capital

		Number of shares	\$
30 June 2014	Balance	130,218,145	29,816,015

30 June 2013

Date	Details	Number of shares	Issue price \$	\$
At beginning of reporting period – 01 July 2012		105,926,817	-	24,727,700
12 July 2012	Exercise of Options	11,000	0.20	2,200
19 July 2012	Exercise of Options	125,000	0.20	25,000
23 July 2012	Exercise of Options	14,800	0.20	2,960
24 July 2012	Exercise of Options	3,500	0.20	700
25 July 2012	Exercise of Options	250,000	0.20	50,000
26 July 2012	Exercise of Options	210,000	0.20	42,000
30 July 2012	Exercise of Options	5,000	0.20	1,00

Notes to the Consolidated Financial Statements

For the year ended 30 June 2014

19 Contributed equity (continued)

Date	Details	Number of shares	Issue price \$	\$
31 July 2012	Exercise of Options	269,800	0.20	53,960
1 August 2012	Exercise of Options	48,600	0.20	9,720
2 August 2012	Exercise of Options	103,675	0.20	20,735
3 August 2012	Exercise of Options	136,140	0.20	27,228
6 August 2012	Exercise of Options	42,547	0.20	8,509
7 August 2012	Exercise of Options	1,278,004	0.20	255,601
8 August 2012	Exercise of Options	497,000	0.20	99,400
9 August 2012	Exercise of Options	9,223	0.20	1,845
10 August 2012	Exercise of Options	32,500	0.20	6,500
13 August 2012	Exercise of Options	6,000	0.20	1,200
14 August 2012	Exercise of Options	935,390	0.20	187,078
15 August 2012	Exercise of Options	4,062,721	0.20	812,544
16 August 2012	Exercise of Options	190,307	0.20	38,061
17 August 2012	Exercise of Options	24,050	0.20	4,810
20 August 2012	Exercise of Options	2,130,118	0.20	426,024
22 August 2012	Exercise of Options	385,100	0.20	77,020
23 August 2012	Exercise of Options	1,046,022	0.20	209,204
24 August 2012	Exercise of Options	688,913	0.20	137,783
27 August 2012	Exercise of Options	1,373,578	0.20	274,715
28 August 2012	Exercise of Options	200,000	0.20	40,000
29 August 2012	Exercise of Options	1,373,439	0.20	274,688
30 August 2012	Exercise of Options	5,175,848	0.20	1,035,170
31 August 2012	Exercise of Options	1,578,773	0.20	315,755
3 September 2012	Exercise of Options	1,177,619	0.20	235,524
4 September 2012	Exercise of Options	570,246	0.20	114,049
10 September 2012	Exercise of Options	336,415	0.20	67,283
10 September 2012	Option Underwriting Expense			(4,037)
10 September 2012	Transfer of Listed Option Balance			234,086
30 June 2013	Balance	<u>130,218,145</u>		<u>29,816,015</u>

Notes to the Consolidated Financial Statements

For the year ended 30 June 2014

19 Contributed equity (continued)

30 June 2014 – Refer to Note 19(c)

30 June 2013

Date	Details	Number of options	Issue price \$	\$
At the beginning of the period		31,197,578	-	264,086
12 July 2012	Exercise of Options	(11,800)	-	-
19 July 2012	Exercise of Options	(125,000)	-	-
23 July 2012	Exercise of Options	(14,800)	-	-
24 July 2012	Exercise of Options	(3,500)	-	-
25 July 2012	Exercise of Options	(250,000)	-	-
26 July 2012	Exercise of Options	(210,000)	-	-
30 July 2012	Exercise of Options	(5,000)	-	-
31 July 2012	Exercise of Options	(269,000)	-	-
1 August 2012	Exercise of Options	(48,600)	-	-
2 August 2012	Exercise of Options	(103,675)	-	-
3 August 2012	Exercise of Options	(136,140)	-	-
6 August 2012	Exercise of Options	(42,547)	-	-
7 August 2012	Exercise of Options	(1,278,004)	-	-
8 August 2012	Exercise of Options	(497,000)	-	-
9 August 2012	Exercise of Options	(9,223)	-	-
10 August 2012	Exercise of Options	(32,500)	-	-
13 August 2012	Exercise of Options	(6,000)	-	-
14 August 2012	Exercise of Options	(935,390)	-	-
15 August 2012	Exercise of Options	(4,062,721)	-	-
16 August 2012	Exercise of Options	(190,307)	-	-
17 August 2012	Exercise of Options	(24,050)	-	-
20 August 2012	Exercise of Options	(2,130,118)	-	-
22 August 2012	Exercise of Options	(385,100)	-	-
23 August 2012	Exercise of Options	(1,046,022)	-	-
24 August 2012	Exercise of Options	(688,913)	-	-
27 August 2012	Exercise of Options	(1,373,578)	-	-
28 August 2012	Exercise of Options	(200,000)	-	-
29 August 2012	Exercise of Options	(1,373,439)	-	-
30 August 2012	Exercise of Options	(5,175,848)	-	-
31 August 2012	Exercise of Options	(1,578,773)	-	-
3 September 2012	Exercise of Options	(1,177,619)	-	-
4 September 2012	Exercise of Options	(570,246)	-	-
10 September 2012	Exercise of Options	(336,415)	-	-
10 September 2012	Options Lapsed	(16,250)	-	-
10 September 2012	Transfer of Listed Option			(234,086)
	Balance			
29 September 2012	Option Issue	500,000	-	-

Notes to the Consolidated Financial Statements

For the year ended 30 June 2014

19 Contributed equity (continued)

Date	Details	Number of options	Issue price \$	\$
17 December 2012	Option Issue	100,000	-	-
05 April 2013	Options Forfeited	(500,000)	-	-
30 June 2013	Balance	<u>6,990,000</u>		<u>30,000</u>

(e) Capital management process

Details of the Group's capital management process are set out in note 4.

20 Reserves and accumulated losses

(a) Reserves

	Consolidated	
	2014	2013
	\$	\$
Share based payments reserve	<u>2,303,074</u>	<u>2,303,074</u>

Movements in share based payments reserve were as follows:

Balance 1 July	2,303,074	2,268,914
Employee share plan expense	-	34,160
Balance 30 June	<u>2,303,074</u>	<u>2,303,074</u>

(b) Accumulated losses

Movements in accumulated losses were as follows:

Balance 1 July	(17,878,252)	(10,860,611)
Net loss for the year	(6,892,234)	(7,017,641)
Balance 30 June	<u>(24,770,486)</u>	<u>(17,878,252)</u>

(c) Nature and purpose of reserves

(i) Share based payments reserve

The share based payments reserve is used to recognise the fair value of options issued to employees.

Notes to the Consolidated Financial Statements

For the year ended 30 June 2014

21 Key management personnel disclosures

The aggregate compensation made to directors and other members of key management personnel of the company and the Group is set out below:

	Consolidated	
	2014	2013
	\$	\$
Short-term employee benefits	518,706	586,715
Post-employment benefits	63,998	67,706
Share based payments	-	9,238
	<u>582,704</u>	<u>663,659</u>

For further detail, refer to the audited remuneration report in the Directors' Report.

22 Remuneration of auditors

During the period the following fees were paid or payable for services provided by the auditor of the parent entity, its related practices and non-related audit firms:

(a) Audit services

Deloitte Touche Tohmatsu	103,000	-
BDO Audit (WA) Pty Ltd – audit and review of financial reports	12,590	27,096
BDO East Coast Partnership – audit of financial reports	-	34,000
Total remuneration for audit services	<u>115,590</u>	<u>61,096</u>

(b) Non-audit services

Audit-related services		
BDO Corporate & International Tax (WA) Pty Ltd		
Taxation advice	-	6,120
Total remuneration for non-audit services	<u>-</u>	<u>6,120</u>
Total remuneration	<u>115,590</u>	<u>67,216</u>

23 Contingencies

(a) Contingent assets

On 18 September 2014 in the Federal Court of Australia Melbourne, Justice Davies ordered Mr Frank Rogers (former Managing Director) and Rogers Southern Pty Ltd (a company controlled by Mr Rogers) to pay compensation to MHM Metals Ltd of \$548,581 (plus interest and costs). Due to continued uncertainty associated with the inflow of economic benefits, no amounts have been recorded in the accounts at 30 June 2014.

Notes to the Consolidated Financial Statements

For the year ended 30 June 2014

23 Contingencies (continued)

On 19 September 2014 the group issued demands on several claims to recover substantial funds (approximately \$5 million, plus interest and legal costs), against a number of entities including Project Development Corporation ("PDC") and the Joint Venture Partners. The recovery claims relate to alleged breaches of a number of agreements entered into by the group and PDC and the Joint Venture Partners. No court date has been set.

(b) Contingent liabilities

The Group has no contingent liabilities to disclose at the date of this report.

24 Commitments

(a) Lease commitments: Group as lessee

The Group leases the premises located at Hays Road under an operating lease. Various items of equipment used in the production process are also leased under operating leases. The leases have varying terms, clauses and renewal rights. The lease terms are renegotiated on renewal.

	Consolidated	
	2014	2013
	\$	\$
Commitments for minimum lease payments are as follows:		
Within one year	255,578	220,778
Later than one year but within five years	511,156	441,555
Later than five years	-	-
	<u>766,734</u>	<u>662,333</u>

25 Related party transactions

(a) Parent entities

The parent entity within the Group is MHM Metals Limited.

(b) Subsidiaries

Interests in subsidiaries are set out in note 26.

(c) Key management personnel

Disclosures relating to key management personnel are set out in note 21.

Notes to the Consolidated Financial Statements

For the year ended 30 June 2014

25 Related party transactions (continued)

	Consolidated	
	2014	2013
	\$	\$
<hr/>		
(d) Transactions with related parties		
Sales of goods and services		
Revenue from processing	-	467,571
<hr/>		
<p>The Project Development Corporation Joint Venture ("PDC JV") was charged a management fee and recovery of processing costs based on a percentage of material delivered for processing under their contract. PDC JV is a venture associated with Mr F A Rogers. The PDC JV arrangements were terminated in prior years and the company now deals directly with Alcoa Inc.</p>		
Purchases of goods and services		
Purchases of property, plant and equipment from other related parties	-	186,685
Purchases of business and taxation services from other related parties	-	34,142
Purchases of rental and hire services from other related parties	-	12,480
Purchases of consulting services from other related parties	-	57,500
	-	290,807
<hr/>		
Superannuation Contributions		
Contributions to superannuation funds on behalf of employees	63,998	40,739
<hr/>		
Share-based payments		
Compensation received from employee option plan (note 30)	-	9,238
<hr/>		
Other transactions		
Remuneration paid to Directors	110,137	426,711
<hr/>		

(e) Outstanding balances arising from purchases and sales of goods and services

No outstanding balances arising from purchases of sales of goods and services were recorded at 30 June 2014 (2013: nil).

(f) Terms and conditions

All other transactions were made on normal commercial terms and conditions and at market rates.

Outstanding balances are unsecured and are repayable in cash.

Notes to the Consolidated Financial Statements

For the year ended 30 June 2014

26 Subsidiaries

The consolidated financial statements incorporate the assets, liabilities and results for the following subsidiaries in accordance with the accounting policy described in note 3.3:

Name of entity	Country of incorporation	Class of shares	Equity holding	
			2014 %	2013 %
Goldstock Mining Pty Limited	Australia	Ordinary	100	100
Alreco Pty Limited	Australia	Ordinary	100	100
Goldstock East Africa Limited	Tanzania	Ordinary	100	100
MHM Metals Corporation	USA	Ordinary	100	100

27 Events occurring after reporting date

On 18 September 2014 in the Federal Court of Australia Melbourne, Justice Davies ordered Mr Frank Rogers (former Managing Director) and Rogers Southern Pty Ltd (a company controlled by Mr Rogers) to pay compensation to MHM Metals Ltd of \$548,581 (plus interest and costs). Due to continued uncertainty associated with the inflow of economic benefits, no amounts have been recorded in the accounts at 30 June 2014.

On 19 September 2014 the group issued demands on several claims to recover substantial funds (approximately \$5 million, plus interest and legal costs), against a number of entities including Project Development Corporation ("PDC") and the Joint Venture Partners. The recovery claims relate to alleged breaches of a number of agreements entered into by the group and PDC and the Joint Venture Partners. No court date has been set.

Notes to the Consolidated Financial Statements

For the year ended 30 June 2014

	Consolidated	
	2014	2013
	\$	\$
28 Reconciliation of loss after income tax to net cash inflow/(outflow) from operating activities		
Operating (loss) after income tax	(6,892,234)	(7,017,641)
Loss/(Profit) on disposal of property, plant and equipment	-	213,181
Exchange Loss/(Gain)	49,334	(119,682)
Financing costs	-	3,437
Depreciation and impairment	7,786,454	3,254,281
Share based payment expense	-	34,160
Exploration expenses written off	40,190	258,044
Engineering and Design plans written off	471,982	-
(Increase)/Decrease in trade and other receivables	(988,929)	1,215,398
(Increase)/Decrease in inventories	-	63,000
(Increase)/Decrease in other assets	119	(38,715)
Increase/(Decrease) in trade and other payables	57,277	(498,310)
Increase/(Decrease) in provisions	756,232	(64,524)
Increase/(Decrease) in other liabilities	166,779	(203,137)
Net cash inflow/(outflow) from operating activities	<u>1,447,204</u>	<u>(2,900,508)</u>

29 Earnings per share

(a) Basic (loss) per share (cents)

Basic (loss) per share attributable to the ordinary equity holders of the company

(5.3) (5.4)

(b) Reconciliation of loss used in calculating (loss) per share

(Loss) attributable to the ordinary equity holders of the company

(6,892,234) (7,017,641)

(c) Weighted average number of shares used as the denominator

Weighted average number of ordinary shares

130,218,145 126,676,682

(d) Effect of dilutive options

As at 30 June 2014, the company has unissued capital (refer to note 19). As the exercise of these options would decrease the basic loss per share, these options are not considered dilutive.

Notes to the Consolidated Financial Statements

For the year ended 30 June 2014

30 Share based payments

(a) Employee option plan

The MHM Metals Limited employee share option plan was established on 7 December 2007. Under the plan, the board may issue options to participants (or to a nominee as the participant directs) having regard, in each case, to:

- the contribution to the Company which has been made by the participant;
- the period of employment of the participant with the company, including (but not limited to) the years of service by that participant;
- the potential contribution of the participant to the company; and
- any other matters which the board considers in its absolute discretion, to be relevant.

When exercisable, each option is convertible into one ordinary share.

The exercise price of options is the exercise price determined by the board on or before the issue date provided that in no event shall the exercise price be less than the weighted average sale price of shares sold on ASX during the five business days prior to the issue date or such other period as determined by the board.

There were no options issued during the 2014 financial year.

Set out below are summaries of options granted under the plan:

Grant date	Expiry date	Exercise price	Balance at the start of the year Number	Granted during the year Number	Exercised during the year Number	Forfeited or Expired during the year Number	Balance at end of the year Number	Vested and exercisable at end of the year Number
Consolidated and parent entity – 2014								
12 Dec 08	28 Nov 13	\$0.20	1,000,000	-	-	(1,000,000)	0	0
18 Dec 08	14 Dec 13	\$0.20	1,000,000	-	-	(1,000,000)	0	0
09 Oct 09	09 Oct 14	\$0.25	40,000	-	-	-	40,000	40,000
17 Dec 09	30 Nov 14	\$0.28	1,900,000	-	-	-	1,900,000	1,900,000
05 Jan 10	04 Jan 15	\$0.28	100,000	-	-	-	100,000	100,000
06 Oct 10	06 Oct 15	\$0.85	150,000	-	-	-	150,000	150,000
20 Jun 11	20 Jun 16	\$1.80	300,000	-	-	-	300,000	300,000
19 Aug 11	30 Jun 16	\$1.00	150,000	-	-	-	150,000	150,000
4 Nov 11	15 Nov 14	\$1.00	300,000	-	-	-	300,000	300,000
15 Sep 11	23 Aug 16	\$1.26	100,000	-	-	-	100,000	100,000
02 Dec 11	29 Nov 16	\$1.71	1,200,000	-	-	-	1,200,000	1,200,000
13 Feb 12	14 Feb 17	\$1.35	150,000	-	-	-	150,000	150,000
14 Nov 12	13 Nov 17	\$0.45	100,000	-	-	-	100,000	100,000
29 Nov 12	18 Jul 17	\$1.00	500,000	-	-	-	500,000	500,000
Total			6,990,000	-	-	(2,000,000)	4,990,000	4,990,000
Weighted average exercise price			\$0.92	\$-	\$-	\$0.20	\$0.92	\$0.92

Notes to the Consolidated Financial Statements

For the year ended 30 June 2014

30 Share based payments (continued)

Grant date	Expiry date	Exercise price	Balance at the start of the year Number	Granted during the year Number	Exercised during the year Number	Forfeited or Expired during the year Number	Balance at end of the year Number	Vested and exercisable at end of the year Number
Consolidated and parent entity – 2013								
07 Dec 07	31 Aug 12	\$0.20	800,000	-	783,750	16,250	-	-
12 Dec 08	28 Nov 13	\$0.20	1,000,000	-	-	-	1,000,000	1,000,000
18 Dec 08	14 Dec 13	\$0.20	1,000,000	-	-	-	1,000,000	1,000,000
09 Oct 09	09 Oct 14	\$0.25	140,000	-	-	100,000	40,000	40,000
17 Dec 09	30 Nov 14	\$0.28	1,900,000	-	-	-	1,900,000	1,900,000
05 Jan 10	04 Jan 15	\$0.28	100,000	-	-	-	100,000	100,000
06 Oct 10	06 Oct 15	\$0.85	300,000	-	-	150,000	150,000	150,000
20 Jun 11	20 Jun 16	\$1.80	300,000	-	-	-	300,000	300,000
19 Aug 11	30 Jun 16	\$1.00	150,000	-	-	-	150,000	150,000
15 Sep 11	23 Aug 16	\$1.26	100,000	-	-	-	100,000	100,000
02 Dec 11	29 Nov 16	\$1.71	1,450,000	-	-	250,000	1,200,000	1,200,000
13 Feb 12	14 Feb 17	\$1.35	150,000	-	-	-	150,000	150,000
14 Nov 12	13 Nov 17	\$0.45		100,000	-	-	100,000	100,000
29 Nov 12	18 Jul 17	\$1.00		500,000	-	-	500,000	500,000
Total			7,390,000	600,000	783,750	516,250	6,690,000	6,690,000
Weighted average exercise price			\$0.66	\$0.91	\$0.20	\$1.13	\$0.70	\$0.70

The weighted average share price at the date of exercise of options exercised during the year ended 30 June 2013 was \$0.30 (2012: \$0.76).

The weighted average remaining contractual life of share options outstanding at the end of the period was 1.90 years (2012: 2.49 years).

Fair value of options granted

The assessed fair value at grant date of options granted during the year ended 30 June 2013 was \$0.03 (average) per option (2012: \$0.41). The fair value at grant date is independently determined using a Black-Scholes option pricing model that takes into account the exercise price, the term of the option, the impact of dilution, the share price at grant date and expected price volatility of the underlying share and the risk free interest rate for the term of the option.

The model inputs for options granted during the year ended 30 June 2013 included:

Option 1:

- (a) 500,000 options are granted for no consideration and vest immediately.
- (b) exercise price: \$1.00.
- (c) grant date: 29 November 2012.
- (d) expiry date: 18 July 2017.
- (e) share price at grant date: \$0.15
- (f) expected price volatility of the company's shares: 60%
- (g) risk-free interest rate: 2.75%.

Notes to the Consolidated Financial Statements

For the year ended 30 June 2014

30 Share based payments (continued)

Option 2:

(h) 100,000 options are granted for no consideration and vest immediately.

(i) exercise price: \$0.45.

(j) grant date: 14 November 2012.

(k) expiry date: 13 November 2017.

(l) share price at grant date: \$0.26

(m) expected price volatility of the company's shares: 60%.

(n) risk-free interest rate: 2.61%.

The expected price volatility is based on the historic volatility adjusted for any expected changes to future volatility due to publicly available information.

(b) Expenses arising from share-based payment transactions

Total expenses arising from share-based payments transactions recognised during the period as part of employee benefit expense were as follows:

	Consolidated	
	2014	2013
	\$	\$
Options issued under employee option plan	-	34,160

31 Guarantees

MHM Metals Limited is party to a bank guarantee under which it has guaranteed the tenement bonds for Goldstock Mining Pty Ltd. The guarantees on issue at 30 June 2014 are Nil (2013: \$58,330) with undrawn amounts of Nil (2013: \$91,670).

MHM Metals Limited

Notes to the Consolidated Financial Statements

For the year ended 30 June 2014

32 Parent entity information

(a) Summary financial information

The following details information related to the parent entity, MHM Metals Limited, at 30 June 2014. The information presented here has been prepared using consistent accounting policies as presented in Note 3.

	2014 \$	2013 \$
Current assets	2,952,044	2,332,258
Non-current assets	5,464,390	12,494,665
Total assets	8,416,434	14,826,923
Current liabilities	204,325	52,554
Non-current liabilities	56,899	50,321
Total liabilities	261,224	102,875
Contributed equity	29,846,015	29,846,015
Share based payments reserve	2,303,074	2,303,074
Accumulated losses	(23,993,879)	(17,425,041)
Total equity	8,155,210	14,724,048
(Loss) for the year	(6,568,838)	(8,296,531)
Other comprehensive income for the year	-	-
Total comprehensive loss for the year	(6,568,838)	(8,296,531)

(b) Contingencies

MHM Metals Limited has no contingent liabilities to disclose at the date of this report.

On 18 September 2014 in the Federal Court of Australia Melbourne, Justice Davies ordered Mr Frank Rogers (former Managing Director) and Rogers Southern Pty Ltd (a company controlled by Mr Rogers) to pay compensation to MHM Metals Ltd of \$548,581

On 19 September 2014 the group issued demands on several claims to recover substantial funds (approximately \$5 million, plus interest and legal costs), against a number of entities including Project Development Corporation ("PDC") and the Joint Venture Partners. The recovery claims relate to alleged breaches of a number of agreements entered into by the group and PDC and the Joint Venture Partners. No court date has been set.

(c) Guarantees

MHM Metals Limited was party to a bank guarantee under which it has guaranteed the tenement bonds for Goldstock Mining Pty Ltd. The guarantees on issue at 30 June 2014 are \$Nil (2013: \$58,330) with undrawn amounts of \$Nil (2013: \$91,760).

Directors' Declaration

For the year ended 30 June 2014

In the opinion of the Directors:

- (a) The consolidated financial statements, comprising the consolidated statement of profit or loss and comprehensive income, consolidated statement of financial position, consolidated statement of cash flows, consolidated statement of changes in equity and accompanying notes, are in accordance with the Corporations Act 2001; and
 - (i) comply with Accounting Standards and the Corporations Regulations 2001; and
 - (ii) give a true and fair view of the consolidated entity's financial position as at 30 June 2014 and the performance for the year ended on that date.
- (b) There are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable; and
- (c) The Consolidated Financial Statements and notes comply with International Financial Reporting Standards as disclosed in note 3.1.
- (d) The remuneration disclosures set out on pages 13 to 20 of the Directors' Report (as part of the audited Remuneration Report) comply with section 300A of the Corporations Act 2001; and
- (e) The Directors have been given the declarations by the Chief Executive Officer and the Chief Financial Officer required by section 295A of the Corporations Act 2001 for the financial year ended 30 June 2014.

Signed in accordance with a resolution of the Directors made pursuant to Section 295(5) of the Corporations Act 2001.

On behalf of the directors,



I M C Kirkwood
Chairman

Geelong, Victoria
30 September 2014

Independent Auditor's Report to the members of MHM Metals Limited

Report on the Financial Report

We have audited the accompanying financial report of MHM Metals Limited, which comprises the consolidated statement of financial position as at 30 June 2014, and the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of cash flows and the consolidated statement of changes in equity for the year ended on that on that date, selected explanatory notes and, the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the end of the year or from time to time during the year as set out on pages 39 to 83.

Directors' Responsibility for the Financial Report

The directors of the company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that is free from material misstatement, whether due to fraud or error. In Note 3, the directors also state, that the financial statements comply with International Financial Reporting Standards.

Auditor's Responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. Those standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control, relevant to the entity's preparation of the financial report that gives a true and fair view, 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. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

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

Auditor's Independence Declaration

In conducting our audit, we have complied with the independence requirements of the *Corporations Act 2001*. We confirm that the independence declaration required by the *Corporations Act 2001*, which has been given to the directors of MHM Metals Limited, would be in the same terms if given to the directors as at the time of this auditor's report.

Opinion

In our opinion:

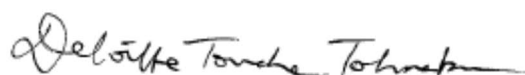
- (a) the financial report of MHM Metals Limited is in accordance with the *Corporations Act 2001*, including:
 - (i) giving a true and fair view of the consolidated entity's financial position as at 30 June 2014 and of its performance for the year ended on that date; and
 - (ii) complying with Australian Accounting Standards and the *Corporations Regulations 2001* ; and
- (b) the financial statements also comply with International Financial Reporting Standards as disclosed in Note 3.

Report on the Remuneration Report

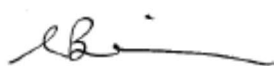
We have audited the Remuneration Report included in pages 13 to 20 of the directors' report for the year ended 30 June 2014. The directors of the company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

Opinion

In our opinion the Remuneration Report of MHM Metals Limited for the year ended 30 June 2014, complies with section 300A of the *Corporations Act 2001*.



DELOITTE TOUCHE TOHMATSU



Chris Biermann
Partner
Chartered Accountants
Melbourne, 30 September 2014

Additional Information

Distribution of Shareholders and their holdings as at 25 September 2014

Spread of Holdings	Holders	Number of Shares
1 – 1,000	286	123,273
1,001 – 5,000	534	1,686,562
5,001 – 10,000	394	3,251,398
10,001 – 100,000	856	29,247,535
100,001 and over	199	95,909,377
	2,269	130,218,145

Twenty Largest Shareholders – Ordinary Shares as at 30 June 2013

Shareholder	Number Held	%
1 UBS Wealth Management	18,740,417	14.40
2 Brazil Farming Pty Ltd	10,811,717	8.30
3 Joseph Psereckis	2,142,876	1.65
4 Anastasios Karafotias	2,085,667	1.60
5 Waye-Harris Enterprises Pty Ltd	1,711,957	1.31
6 Sportpix Pty Ltd	1,408,263	1.08
7 McDougall G & Elmes G F	1,235,000	0.95
8 Netwealth Inv Ltd	1,128,500	0.87
9 Deavin Phillip M & C M	1,103,729	0.85
10 Ross Brown	1,000,000	0.77
11 Murray M Bailey & Patricia J Bailey	1,000,000	0.77
12 Dupuy Oliver R & J E	1,000,000	0.77
13 Gregory J Wood & Associates Pty Ltd	945,000	0.73
14 THD Nom Pty Ltd	934,673	0.72
15 Leuchter Entps Pty Ltd	828,000	0.64
16 Kempinski Margaret	764,300	0.59
17 Dai La Fu Pty Ltd	750,000	0.58
18 Dieter M Wirkus & Simone A Wirkus	750,000	0.58
19 Wilson Andrew & Julie P	735,000	0.56
20 Pargi Holdings Super Fund Pty Ltd	731,000	0.56

Restricted Securities

The Group has no restricted securities (in accordance with ASX Listing Rules).

Substantial Shareholders

The substantial shareholders as at 30 June 2013 were:

Shareholder	Number Held	%
1 UBS Wealth Management	18,740,417	14.40
2 Brazil Farming Pty Ltd	10,811,717	8.30

MHM Metals Limited

Additional Information

Voting Rights

Each ordinary share is entitled to one vote when a poll is called, otherwise each member present at a meeting or by proxy has one vote on a show of hands.

Options have no voting rights until such options are exercised as fully paid ordinary shares.

ASX Listing Rule 4.10.19

In accordance with ASX Listing Rule 4.10.19, the Group states that it has used the cash and assets in a form readily convertible to cash that it had at the time of admission in a way consistent with its business objectives. The business objective is primarily aluminium salt slag processing and mineral exploration.

Company Secretary

The company secretary is Lee Mitchell.

Statement of Unquoted Securities

Number of Options	Number of Holders	Exercise Price	Date of Expiry
40,000	1	\$0.25	09/10/2014
1,900,000	4	\$0.28	30/11/2014
100,000	1	\$0.28	05/01/2015
150,000	1	\$0.85	06/10/2015
300,000	2	\$1.80	20/06/2016
150,000	1	\$1.00	30/06/2016
100,000	1	\$1.26	23/08/2016
300,000	1	\$1.00	05/11/2014
1,200,000	6	\$1.71	29/11/2016
150,000	1	\$1.35	14/02/2017
500,000	1	\$1.00	18/07/2017
100,000	1	\$0.45	13/11/2017

Option Holders with 20% or more

Options expiring 9 October 2014

Option Holder	Number Held	%
John Richardson	40,000	100.00

Additional Information

Option Holders with 20% or more (continued)

Options expiring 30 November 2014

Option Holder	Number Held	%
Rogers Southern Pty Ltd	750,000	39.47
Ageicion Pty Ltd	750,000	39.47

Options expiring 4 January 2015

Option Holder	Number Held	%
John Richardson	100,000	100.00

MHM Metals Limited

Options expiring 6 October 2015

Option Holder	Number Held	%
Mark Rogers	150,000	100.00

Options expiring 20 June 2016

Option Holder	Number Held	%
Ben Smith	150,000	50.00
Richard Lindsay	150,000	50.00

Options expiring 30 June 2016

Option Holder	Number Held	%
John Pugh	150,000	100.00

Options expiring 23 August 2016

Option Holder	Number Held	%
Ana Cuison	100,000	100.00

Options expiring 5 November 2014

Option Holder	Number Held	%
Metal Options LLC	300,000	100.00

Options expiring 14 February 2017

Option Holder	Number Held	%
Annabelle Brooks	150,000	100.00

Options expiring 18 July 2017

Option Holder	Number Held	%
Phillip Thick	500,000	100.00

Options expiring 13 November 2017

Option Holder	Number Held	%
Mark Rogers	100,000	100.00