

**HAMMER METALS LIMITED
ABN 87 095 092 158
and its Controlled Entities**

INTERIM FINANCIAL REPORT

6 MONTHS ENDED

31 DECEMBER 2014

DIRECTORS' REPORT

The directors present their report together with the consolidated financial report for the six months ended 31 December 2014 and the review report thereon.

DIRECTORS

The directors of the Company at any time during or since the end of the half year are:

Mr Russell Davis Chairman	Director since 13 January 2014
Mr Alex Hewlett Executive Director	Director since 26 June 2013
Mr Patrick Corr Non Executive Director	Director since 26 June 2013
Mr Nader El Sayed Non Executive Director	Director since 26 June 2013

REVIEW OF OPERATIONS

The Group incurred an after tax loss attributable to equity holders of the parent entity for the half year ended 31 December 2014 of \$1,237,740 (31 December 2013: loss \$11,618,342).

The Group operated during the period as a mineral explorer in Western Australia and Queensland.

An amount of \$1,200,000 was raised by way of private placement of 8,888,888 shares during the period. The following options were issued during the period:

- 1,000,000 unlisted options expiring 11 September 2017 with an exercise price of \$0.20
- 300,000 unlisted options expiring 11 September 2016 with an exercise price of \$0.30
- 7,100,000 unlisted options expiring 30 November 2017 with an exercise price of \$0.135

Further details of the options are disclosed in Note 12 to the financial statements.

Queensland projects:

Mount Isa Region Projects

The Company's projects in the Mount Isa region comprise approximately 2000km² of granted tenements and tenement applications which encompass Iron Oxide Copper-Gold prospects and shear-hosted base metal and gold prospects.

The Company undertook two RC drilling programs in the period. The first drill program completed in September 2014 covered several targets including the Kalman, Overlander North, Trafalgar Extended and Even Steven targets with a number of promising results. The drilling program was designed to advance Hammer's strategy of defining high-grade copper resources within trucking distance of the Company's 100% owned Kalman copper-gold-molybdenum-rhenium deposit.

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A second drill program was completed in November 2014. RC drilling was undertaken at the Overlander North, Kalman and Scalper prospects and detailed geophysical programs at Overlander, Andy's Hill and Dronfield prospects. The successful drilling and geophysical programs continue to underscore the prospectivity of Hammer's Mt. Isa project for large Iron Oxide Copper Gold (IOCG) deposits. Modelling of new detailed gravity and magnetic data has defined multiple anomalies indicative of large IOCG alteration systems at Overlander, Andy's Hill and Dronfield.

Mount Philp

The Mineral Development License application over Hammer's 100% owned Mount Philp haematitic iron deposit was withdrawn, thereby reverting to the existing granted exploration tenure. Hammer had previously received a cash offer for the iron ore deposit (with rights to other minerals to remain with Hammer), but the sale did not complete as all the sale conditions could not be met.

Work at Mount Philp is currently focused on the copper-gold potential indicated by previous drilling below the iron deposit.

Mount Morgan Region

The Golden Peaks project is located to the southeast of the Mount Morgan gold-copper mine in Central Queensland which produced over 8,000,000 ounces of gold and 387,000 tonnes of copper. The Company has a joint venture with Perilya Limited over EPM15810 and MDL13 and holds a 100% interest in EPM19831. The tenements cover significant sections of the prospective volcanic sequences that host the Mount Morgan deposit.

A review of the new ground EM data and previous geological data was completed over the Mount Dick North area where a cluster of EM conductors was located by the VTEM survey flown by Hammer in 2013. Several drill targets were generated and Hammer has applied for drill funding under the Queensland Government's Collaborative Drilling Initiative.

Western Australian projects:

Paterson Province: Copper-Gold

Agreement was reached with Encounter Resources Limited (ASX: ENR) for the sale of Hammer's Paterson tenements which were subject to a joint venture with Encounter. In consideration for the tenements 750,000 fully paid ordinary shares in Encounter were issued to Hammer. An 18 month voluntary escrow period applies to the shares.

Sunset Well and Leonora Gold Project

Tenements securing the small Prospero gold deposit were relinquished due to high holding costs relative to the project's perceived value.

Iron Ore Projects (Mulga)

Sale of these assets has not occurred and Hammer retains one tenement E08/1997 in this region. Hammer continues to have discussions with selected parties in relation to the sale of this asset.

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EVENTS AFTER BALANCE DATE

On 3 February 2015, the Company made a share placement for the issue of 15,625,000 shares raising \$1,250,000 in cash. The placement incorporated 3,811,953 free attaching unlisted options exercisable by payment of \$0.15 on or before 6 February 2018.

Other than the above, there has not been any matter or circumstance that has arisen after balance date that has significantly affected, or may significantly affect, the operations of the Group, the results of those operations, or the state of affairs of the Group in future financial periods.

LEAD AUDITOR'S INDEPENDENCE DECLARATION UNDER SECTION 307C OF THE CORPORATIONS ACT 2001

The lead auditor's independence declaration is set on page 4 and forms part of the directors' report for the half year ended 31 December 2014.

Signed in accordance with a resolution of the directors:

A handwritten signature in black ink, appearing to read 'A Hewlett', written over a horizontal line.

A Hewlett
Executive Director
Perth
Dated 13th March 2015



Lead Auditor's Independence Declaration under Section 307C of the Corporations Act 2001

To: the directors of Hammer Metals Limited

I declare that, to the best of my knowledge and belief, in relation to the review for the half-year ended 31 December 2014 there have been:

- (i) no contraventions of the auditor independence requirements as set out in the Corporations Act 2001 in relation to the review; and
- (ii) no contraventions of any applicable code of professional conduct in relation to the review.

KPMG

KPMG

David Sinclair
Partner

Perth

13 March 2015

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CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 31 DECEMBER 2014

	Note	31 December 2014 \$	30 June 2014 \$
Current assets			
Cash and cash equivalents		590,177	780,187
Deposits		15,000	15,000
Trade and other receivables		41,914	522,109
Assets held for sale	8	-	1,653,580
Total current assets		647,091	2,970,876
Non-current assets			
Other financial assets		97,500	-
Plant and equipment		11,324	15,895
Exploration and evaluation expenditure	9	7,569,679	5,271,109
Total non-current assets		7,678,503	5,287,004
Total Assets		8,325,594	8,257,880
Current liabilities			
Trade and other payables		191,463	309,822
Provisions	10	-	47,668
Total current liabilities		191,463	357,490
Total Liabilities		191,463	357,490
Net Assets		8,134,131	7,900,390
Equity			
Share capital	11	36,027,606	35,006,678
Reserves		1,761,945	1,311,392
Accumulated losses		(29,655,420)	(28,417,680)
Total Equity		8,134,131	7,900,390

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

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CONDENSED CONSOLIDATED STATEMENT OF PROFIT AND LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE SIX MONTHS ENDED 31 DECEMBER 2014

		31 December 2014 \$	31 December 2013 \$
Continuing operations			
Marketing expenses		(88,872)	(18,540)
Administrative expenses		(341,438)	(248,237)
Share based payments	12	(373,447)	(171,974)
Project evaluation		(31,502)	(7,007)
Depreciation		(10,243)	(15,869)
Occupancy expenses		(22,945)	(45,161)
Loss on sale of exploration assets		(185,045)	-
Impairment of exploration assets		-	(10,241,958)
Impairment of assets available for sale		(61,028)	(316,896)
Results from operating activities		(1,114,520)	(11,065,642)
Financial income		10,316	13,802
Financial expenses		-	(6,857)
Net financing income		10,316	6,945
Loss before tax		(1,104,204)	(11,058,697)
Income tax benefit		-	-
Loss for the period from continuing operations		(1,104,204)	(11,058,697)
Discontinued operations			
Profit / (loss) from discontinued operation (net of tax)	7	(133,536)	(559,645)
Loss for the period		(1,237,740)	(11,618,342)
Other comprehensive income			
Net change in fair value of available for sale financial assets		(15,000)	13,218
Total comprehensive loss for the period		(1,252,740)	(11,605,124)
 Basic and diluted loss per share		 1.66 cents	 32 cents*

* Basic and diluted loss per share for the comparative period has retrospectively been adjusted for the share consolidation the occurred in April 2014.

This condensed consolidated statement of profit and loss and other comprehensive income is to be read in conjunction with the accompanying notes.

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CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE SIX MONTHS ENDED 31 DECEMBER 2014

	Share capital \$	Share based payment reserve \$	Fair value reserve \$	Accumulated losses \$	Total \$
Balance at 1 July 2014	35,006,678	1,311,392	-	(28,417,680)	7,900,390
Total comprehensive income for the period					
Loss for period	-	-	-	(1,237,740)	(1,237,740)
Other comprehensive income					
Revaluation of available for sale investment	-	-	(15,000)	-	(15,000)
Total comprehensive income for the period	-	-	(15,000)	(1,237,740)	(1,252,740)
Shares issued for cash	1,200,000	-	-	-	1,200,000
Costs of share issue	(179,072)	92,106	-	-	(86,966)
Share based payments	-	373,447	-	-	373,447
Balance at 31 December 2014	36,027,606	1,776,945	(15,000)	(29,655,420)	8,134,131

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

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CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE SIX MONTHS ENDED 31 DECEMBER 2014

	Share capital \$	Share based payment reserve \$	Fair value reserve \$	Accumulated losses \$	Total \$
Balance at 1 July 2013	29,791,144	76,497	-	(16,336,270)	13,531,371
Total comprehensive income for the period					
Loss for period	-	-	-	(11,618,342)	(11,618,342)
Other comprehensive income					
Revaluation of available for sale investment	-	-	13,218	-	13,218
Total comprehensive income for the period	-	-	13,218	(11,618,342)	(11,605,124)
Shares issued for cash	190,000	-	-	-	190,000
Costs of share issue	(14,110)	-	-	-	(14,110)
Shares issued for acquisition of assets	4,201,817	1,057,643	-	-	5,259,460
Shares issued for settlement of loans	192,434	-	-	-	192,434
Share based payments	-	171, 974	-	-	171,974
Options lapsed during the period	-	(76,497)	-	76,497	-
Balance at 31 December 2013	34,361,285	1,229,617	13,218	(27,878,115)	7,726,005

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

HAMMER METALS LIMITED and its Controlled Entities

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE SIX MONTHS ENDED 31 DECEMBER 2014

	31 December 2014 \$	31 December 2013 \$
CASH FLOWS FROM OPERATING ACTIVITIES		
Interest received	10,316	13,802
Cash payments in the course of operations	(540,975)	(529,393)
Payments for evaluation of new projects	(31,502)	(7,007)
Net cash used in operating activities	<u>(562,161)</u>	<u>(522,598)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Exploration and evaluation expenditure	(1,324,454)	(342,768)
Payments for acquisition of exploration assets	-	(165,000)
Payments for purchase of plant and equipment	(5,672)	(15,862)
Research and development tax incentive claim received	589,242	-
Deferred income on assets available for sale	-	50,000
Net cash used in investing activities	<u>(740,884)</u>	<u>(473,630)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from issue of shares	1,200,000	190,000
Transaction costs from issue of shares	(86,965)	(14,110)
Net cash provided by financing activities	<u>1,113,035</u>	<u>175,890</u>
Net increase / (decrease) in cash and cash equivalents	(190,010)	(820,338)
Cash at the beginning of the financial period (i)	<u>795,187</u>	<u>1,620,121</u>
Cash at the end of the financial period (i)	<u>605,177</u>	<u>799,783</u>

(i) Cash includes deposits.

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

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NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 31 DECEMBER 2014

1. Reporting entity

Hammer Metals Limited (the "Company") is a company domiciled in Australia. These condensed consolidated interim financial statements ('interim financial statements') as at and for the six months ended 31 December 2014 comprise the Company and its subsidiaries (together referred to as the "Group"). The Group is primarily involved in mineral exploration in Western Australia and Queensland.

The consolidated annual financial statements of the Group as at and for the year ended 30 June 2014 is available upon request from the Company's registered office at Suite 1, 827 Beaufort Street Mt Lawley, WA, 6050 or at www.hammermetals.com.au.

2. Statement of compliance

The interim financial statements are general purpose financial statements prepared in accordance with AASB 134: *Interim Financial Reporting* and the Corporations Act 2001.

Selected explanatory notes are included to explain events and transactions that are significant to an understanding of the changes in financial position and performance of the Group since the last annual consolidated financial statements as at and for the year ended 30 June 2014. This report does not include all of the information required for full annual financial report and should be read in conjunction with the consolidated financial report of the Group as at and for the year ended 30 June 2014.

This consolidated interim financial report was approved by the Board of Directors on 13th March 2015.

3. Significant accounting policies

The accounting policies applied by the Group in this condensed consolidated interim financial report are the same as those applied by the Group in its consolidated financial report as at and for the year ended 30 June 2014.

4. Going concern

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

For the period ended 31 December 2014, the Group has incurred a consolidated loss of \$1,237,740 and experienced net operating cash outflows of \$562,161 and net investing cash outflows of \$740,884. As at 31 December 2014 the Group had \$590,177 in cash and cash equivalents and net current assets of \$455,628.

The Company may need to raise additional funds to meet its ongoing obligations and subject to the results of its ongoing exploration activities, expand or accelerate its work programs. The Company's capacity to raise additional funds via equity issues will be impacted by the success of the ongoing exploration activities. In this instance, the Company would consider securing additional funds through a capital raising via preferential issues to existing shareholders, placements to new and existing investors or through realization of assets. Subsequent to the period end, the Company has successfully completed a placement of \$1,250,000 with sophisticated investors. The Company has prepared a 12 month cash flow budget from the date of signing the financial report which demonstrates that non-discretionary expenditure can be funded by existing reserves.

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NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 31 DECEMBER 2014

4. Going concern (continued)

The Directors have reviewed the Group's and Company's overall position and are of the opinion that the use of the going concern basis of accounting is appropriate.

5. Use of judgements and estimates

The preparation of the interim financial report requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amount of assets and liabilities, income and expense. Actual results may differ from these estimates.

In preparing this consolidated interim financial report, the significant judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial report as at and for the year ended 30 June 2014.

Measurement of fair values

When measuring the fair value of an asset or liability, the Group uses market observable data as far as possible. Fair values are categorised into different levels in a fair value hierarchy based on the inputs used in the valuation techniques as follows:

- Level 1: quoted prices (unadjusted) in active markets for identical assets and liabilities
- Level 2: inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e. as price) or indirectly (i.e. derived from prices).
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs)

If the inputs used to measure the fair value of an asset or a liability are categorised in different levels of the fair value hierarchy, then the fair value measurement is categorised in its entirety in the same level of the fair value hierarchy as the lowest level that is significant to the entire measurement.

6. Operating Segments

The Group has four reportable segments being:

- Gold exploration
- Iron ore exploration ⁽ⁱ⁾
- Base Metals exploration
- Copper-Gold exploration

The Group's operating segments have been determined with reference to the monthly management accounts, program budgets and cash flow forecasts used by the chief operating decision maker to make decisions regarding the Group's operations and allocation of working capital.

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NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 31 DECEMBER 2014

6. Operating Segments (continued)

Information about reportable segments	Copper - Gold \$	Gold \$	Iron Ore \$	Base Metals \$	Total Segments \$	Corporate \$	Total Consolidated \$
For the six months ended 31 December 2014							
Other income	-	-	-	-	-	10,316	10,316
Reportable segment result	-	(60,530)	(133,536)	(217,045)	(411,111)	(826,629)	(1,237,740)
Reportable segment assets	7,569,679	-	-	-	7,569,679	755,915	8,325,594
For the six months ended 31 December 2013							
Other income	-	-	250,000	-	250,000	-	250,000
Reportable segment result	-	(10,565,861)	(559,645)	-	(11,125,506)	(492,836)	(11,618,342)
Reportable segment assets	4,123,226	380,000	1,600,000	973,673	7,076,899	958,856	8,035,755

7. Discontinued operations

The Group's interests in the separately identified iron ore segment are held for sale (refer note 8). The revenue and expenses related to this segment are shown in the table below:

	31 December 2014	31 December 2013
Results of discontinued operation		
Revenue	-	250,000
Expenses	(369)	(505)
Impairment	(133,167)	(809,140)
Results from operating activities	(133,536)	(559,645)
Tax	-	-
Loss for the year	(133,536)	(559,645)
Basic and diluted loss per share	0.18 cents	2 cents *

The loss from discontinued operation of \$133,536 is attributable entirely to the owners of the Company.

* Basic and diluted loss per share for the comparative period has retrospectively been adjusted for the share consolidation the occurred in April 2014.

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NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 31 DECEMBER 2014

7. Discontinued operations (continued)	31 December 2014	31 December 2013
Cash flows from (used in) discontinued operation		
Net cash used in operating activities	(369)	(505)
Net cash from investing activities	(7,810)	35,083
Net cash from financing activities	-	-
Net cash flows for the year	(8,179)	34,578

8. Assets held for sale

Gold Assets:

Tenements securing the small Prospero gold deposit were relinquished due to high holding costs relative to the projects perceived value. Capitalised costs relating to these assets at the end of period of \$61,029 have been written off to profit and loss.

Iron Ore Assets:

In 2012, the Company had entered into a conditional sale agreement for the sale of all the shares held in Mulga Minerals Pty Ltd, a wholly owned subsidiary which holds title to iron ore assets, the sale agreement expired in July 2013 and no further offers have been received. The Company has relinquished a number of tenements held in this group of assets and has applied for the remaining tenement to be held with a retention status based on the holding being an uneconomical reserve. The Company does not intend to continue marketing the project for sale and has no planned exploration activities in this area and as such the Group has impaired the value of the assets held by Mulga Minerals Pty Ltd to Nil. An impairment of \$133,167 has been recognised in the statement of profit and loss and other comprehensive income.

Other:

In December 2013, the Company received a cash offer of \$1,500,000 for its 100% owned Mt. Philp Iron Ore deposit. As a result this deposit was classified as an Iron Ore asset held for sale and included in the iron ore segment. The final terms and conditions of sale could not be agreed and subsequently the sale did not proceed. The Mineral Development License application over this iron deposit was withdrawn, thereby reverting to the existing granted exploration tenure. The Company is currently not actively pursuing the sale of this asset and has reclassified the costs to capitalised Exploration and evaluation costs. Work at Mount Philp is currently focused on the copper-gold potential indicated by previous drilling below the iron deposit and therefore has been reallocated from the iron ore segment to the copper-gold segment during the period.

As a result of the events discussed above, as at 31 December 2014 there are no assets classified as held for sale (June 2014: \$1,653,580 comprised Iron Ore assets of \$1,625,356 and Gold assets of \$28,224).

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NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 31 DECEMBER 2014

9. Exploration and evaluation expenditure

	31 December 2014 \$	30 June 2014 \$
Balance at the beginning of the period	5,271,109	11,387,350
Exploration and evaluation expenditure incurred	1,217,847	1,392,210
Exploration and evaluation assets acquired	-	5,213,429
Exploration and evaluation assets sold	(313,545)	(330,000)
Exploration and evaluation expenditure written off	-	(361,766)
Exploration and evaluation impaired	-	(9,903,072)
Research and Development Tax incentive received	(105,732)	(627,042)
Exploration and evaluation assets reclassified from / (to) available for sale	1,500,000	(1,500,000)
Balance at the end of the period	<u>7,569,679</u>	<u>5,271,109</u>

The ultimate recoupment of costs carried forward for exploration and evaluation phases is dependent on the successful development and commercial exploitation or sale of the respective areas of interest at an amount greater or equal to the carrying value.

Agreement was reached with Encounter Resources Limited for the sale of the Paterson tenements which were subject to a joint venture with Encounter. In consideration for the tenements 750,000 fully paid ordinary shares in Encounter were issued to the Company to the value of \$112,500. The carrying value of the tenements at conclusion of the sale was \$297,545; resulting in a net loss of \$185,045 recognised in the statement of profit and loss and other comprehensive income.

A research and development tax incentive payment was received during the period in relation to its Golden Peak project for work undertaken in prior years. The amount has been recognised against the asset to the extent that the amount related to capitalised costs.

10. Provisions

	31 December 2014 \$	30 June 2014 \$
Current provision		
Provision for employee benefits	-	31,668
Provision for rehabilitation	-	16,000
	<u>-</u>	<u>47,668</u>

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NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 31 DECEMBER 2014

11. Capital and reserves

The following table summarises the shares issued during the six months ended 31 December 2014.

	31 December 2014 \$	30 June 2014 \$
Issued capital		
82,147,815 (30 June 2014: 71,005,107) ordinary fully paid shares	35,622,347	34,376,037
4,052,232 (30 June 2014: 6,306,405) preference shares	405,259	630,641
	<u>36,027,606</u>	<u>35,006,678</u>
	Number of shares	\$
Movements for Ordinary shares:		
Balance at 30 June 2014	71,005,107	34,376,037
Issued for cash at \$0.135 per share	8,888,888	1,200,000
Conversion of preference shares	2,253,820	225,382
Cost of shares issued	-	(179,072)
Balance at 31 December 2014	<u>82,147,815</u>	<u>35,622,347</u>
	Number of shares	\$
Movements for preference shares:		
Balance at 30 June 2014	6,306,405	630,641
Conversion of preference shares to ordinary shares	(2,253,820)	(225,382)
	<u>4,052,585</u>	<u>405,259</u>
	Number of options	\$
Unlisted options		
Balance at 30 June 2014	17,416,674	1,311,392
Options issued for professional services – exercise price \$0.20 expiring 11 September 2017	1,000,000	92,106
Options issued for professional services – exercise price \$0.30 expiring 11 September 2016	300,000	15,598
Options issued to Directors – exercise price \$0.135 expiring 30 November 2017	6,000,000	308,242
Options issued to consultants and contractors – exercise price \$0.135 expiring 30 November 2017	1,100,000	49,607
	<u>25,816,674</u>	<u>1,776,945</u>

Dividends

No dividends were declared or paid during the six months ended 31 December 2014 (2013: NIL).

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NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 31 DECEMBER 2014

12. Share-based payments

The following options were granted during the period:

Date Granted:	No of options:	Expiry date	Purpose:	Contractual life of option
9 Sept 2014	1,000,000	11 Sept 2017	For professional services by third party	3 years
1 Aug 2014	300,000	11 Sept 2016	For professional services by third party	2 years
28 Nov 2014	6,000,000	30 Nov 2017	To Directors as part of incentive package	3 years
8 Dec 2014	1,100,000	30 Nov 2017	To Consultants as part of incentive package	3 years

The fair value of services rendered in return for share options is based on the fair value of share options granted, measured using the Black-Scholes model.

The following inputs were used in the measurement of the fair values at grant date of the share based payment plans:

	1 Aug 2014 (2 yr option)	9 Sept 2014 (3 yr option)	28 Nov 2014 (Directors)	8 Dec 2014 (Consultants)
Fair value at grant date	\$0.052	\$0.092	\$0.051	\$0.045
Share price at grant date	\$0.12	\$0.15	\$0.09	\$0.082
Exercise price	\$0.30	\$0.20	\$0.135	\$0.135
Expected volatility	118%	108%	104%	104%
Option life	2 years	3 years	3 years	3 years
Expected dividends	Nil	Nil	Nil	Nil
Risk-free interest rate (based on government bonds)	2.56%	2.66%	2.55%	2.55%

Expected volatility is estimated taking into account historic average share price volatility.

The total amount expended in the statement of profit and loss and other comprehensive income for the period was \$373,447 (2013: \$171,974).

No options lapsed, expired or were exercised during the period.

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NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 31 DECEMBER 2014

12. Share-based payments (continued)

The number and weighted average exercise price of share options on issue is as follows:

	No of options	Weighted average exercise price
Outstanding at 1 July	17,416,674	\$0.21
Granted during the period	8,400,000	\$0.15
Expired / lapsed or exercised during the period	-	-
Outstanding at 31 December	<u>25,816,674</u>	<u>\$0.19</u>
Exercisable at 31 December	<u>25,816,674</u>	

13. Exploration Expenditure Commitments

In order to maintain current rights of tenure to exploration tenements the Company is required to perform exploration work to meet the minimum expenditure requirements specified by various State Governments within Australia. These obligations may be reset when application for a mining lease is made and at other times.

The Group has a minimum expenditure commitment on tenure under its control.

The Company can apply for exemption from compliance with the minimum exploration expenditure requirements. Due to the nature and scale of the Company's exploration activities the Company is unable to estimate its likely tenement holdings and therefore minimum expenditure requirements more than 1 year ahead.

The commitment for minimum exploration expenditure payable as at 31 December 2014, payable within one year, is \$1,001,566. These obligations are not provided for in the financial report.

14. Subsequent events

On 3 February 2015, the Company finalized a share placement for the issue of 15,625,000 shares raising \$1,250,000 in cash. The placement incorporated 3,811,953 free attaching unlisted options exercisable by payment of \$0.15 on or before 6 February 2018.

Other than the above, there has not been any matter or circumstance that has arisen after balance date that has significantly affected, or may significantly affect, the operations of the Group, the results of those operations, or the state of affairs of the Group in future financial periods.

**HAMMER METALS LIMITED
and its Controlled Entities**

DIRECTORS' DECLARATION

In the opinion of the directors of Hammer Metals Limited ("the Company"):

- a) the condensed consolidated financial statements and notes set out on pages 5 to 17, are in accordance with the Corporations Act 2001, including:
 - (i) giving a true and fair view of the Group's financial position as at 31 December 2014 and of its performance for the six month period ended on that date; and
 - (ii) complying with Australian Accounting Standard AASB 134 "Interim Financial Reporting" and the Corporations Regulations 2001; and
- 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.

Signed in accordance with a resolution of the directors:



A Hewlett
Executive Director

Perth

Dated 13th March 2015



Independent auditor's review report to the members of Hammer Metals Limited

Report on the financial report

We have reviewed the accompanying interim financial report of Hammer Metals Limited, which comprises the condensed consolidated statement of financial position as at 31 December 2014, condensed consolidated statement of profit and loss and other comprehensive income, condensed consolidated statement of changes in equity and condensed consolidated statement of cash flows for the half-year ended on that date, notes 1 to 14 comprising a summary of significant accounting policies and other explanatory information and the directors' declaration of the Group comprising the company and the entities it controlled at the half-year's end or from time to time during the half-year.

Directors' responsibility for the half-year financial report

The directors of the company are responsible for the preparation of the interim financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the half-year financial report that is free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express a conclusion on the interim financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the interim financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the Group's financial position as at 31 December 2014 and its performance for the half-year ended on that date; and complying with Australian Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As auditor of Hammer Metals Limited, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of an interim financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Independence

In conducting our review, we have complied with the independence requirements of the *Corporations Act 2001*.



Conclusion

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the interim financial report of Hammer Metals Limited is not in accordance with the *Corporations Act 2001*, including:

(a) giving a true and fair view of the Group's financial position as at 31 December 2014 and of its performance for the interim period ended on that date; and

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

A handwritten signature in blue ink that reads 'KPMG'.

KPMG

A handwritten signature in blue ink, appearing to read 'David Sinclair'.

David Sinclair
Partner

Perth

13 March 2015