

HAMMER METALS LIMITED

ABN 87 095 092 158

FINANCIAL REPORT

30 JUNE 2018

HAMMER METALS LIMITED
and its Controlled Entities

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DIRECTORS' REPORT

The Directors present their report together with the financial report of Hammer Metals Limited ("the Company", "Hammer") and of the Group, comprising the Company and its subsidiaries, for the year ended 30 June 2018 and the auditor's report thereon.

1. DIRECTORS

The Directors at any time during or since the end of the financial year are:

Russell Davis – Executive Chairman (appointed 13 January 2014)
BSc (Honours) MBA MAusIMM, MAICD

Russell Davis is a Geologist with over 30 years' experience in the mineral resources business. He has worked on the exploration and development of a range of commodities for a number of international and Australian companies, holding senior technical and corporate positions including Chief Mine Geologist, Exploration Manager and Managing Director.

Mr Davis was a founding Director of Gold Road Resources Limited and also Syndicated Metals Limited where he was Managing Director from December 2007 to March 2012. Mr Davis has been a Director of Hammer Metals (Australia) Pty Ltd since its inception in 2012.

Alexander Hewlett – Executive Director (appointed 26 June 2013)
BSc MAusIMM

Alexander Hewlett is a Geologist graduating from the University of Western Australia. Mr Hewlett worked as a resource-modelling geologist for CSA Global, before accepting management positions in ASX listed explorers including Managing Director of US Nickel Ltd and Chairperson of Groote Resources Ltd (now Northern Manganese Limited). Mr Hewlett was employed as a consultant for a New York resource fund working as an analyst.

Mr Hewlett is highly skilled at project identification and acquisition and has a flair for company and investor communications. He has raised significant funds for both domestic and international projects in the mining and exploration sector. Mr Hewlett has also acquired packaged and vended project portfolio's into ASX listed companies including – White Star Resources, Groote Resources and Spitfire Resources as well as identifying and acquiring projects for US Nickel (later Kalgoorlie Mining Company).

Mr Hewlett is a member of the Australasian Institute of Mining and Metallurgy and been a Director of Hammer Metals (Australia) Pty Ltd since its inception in 2012. Mr Hewlett is also a director of ASX-listed companies Spectrum Metals Limited and Black Cat Syndicate Limited.

Nader El Sayed – Independent Non-Executive Director (appointed 26 June 2013)
B.Comm, MA, CA

Nader El Sayed holds a Bachelor of Commerce (Banking & Finance), Masters (Accounting) and is a member of the Australian Institute of Chartered Accountants. Mr El Sayed is currently the Chief Executive Officer of Multiplant Holdings, a mining and civil services business based in Western Australia. Mr El Sayed's previous roles include holding a senior management position with KPMG providing assurance, capital markets and other advisory services to key Australian and international resource companies. Mr El Sayed brings a wealth of risk management, corporate governance, strategic and financial experience to the Board. Mr El Sayed is also a director of Spectrum Metals Limited.

Simon Bodensteiner – Independent Non-Executive Director (appointed 8 September 2015)
MSc

Simon Bodensteiner, previously Chief Mining Engineer for major shareholder Deutsche Rohstoff AG, a Germany based resource and investment company. He is an experienced mining professional holding a Masters Degree in Mining Engineering and has previously held operational and senior technical positions at several Rio Tinto operations across Australia. Before joining Deutsche Rohstoff, he worked as a consultant for The Boston Consulting Group. Mr Bodensteiner brings significant bulk and selective mining experience from underground and open pit operations to the Board.

DIRECTORS' REPORT (CONTINUED)

2. DIRECTORSHIPS OF OTHER LISTED COMPANIES

Directorships of other ASX listed companies held by Directors in the 3 years immediately before the end of the financial year are as follows:

Name	Company	Period of Directorship
Russell Davis	Gold Road Resources Ltd	May 2004 – June 2016
Alexander Hewlett	Spectrum Rare Earths Limited	March 2017 – to date
	Black Cat Syndicate Limited	January 2018 – to date
Nader El Sayed	Spectrum Rare Earths Limited	October 2017 – to date
Simon Bodensteiner	None	-

3. COMPANY SECRETARY

Mark Pitts – Company Secretary (appointed 13 August 2010)
B.Bus, FCA

Mr Pitts is a Chartered Accountant with over 25 years' experience in statutory reporting and business administration. He has been directly involved with, and consulted to a number of public companies holding senior financial management positions. Mr Pitts is a Partner in the corporate advisory firm Endeavour Corporate providing secretarial support, corporate and compliance advice to a number of ASX listed public companies.

4. DIRECTORS' MEETINGS

The number of Directors' meetings held and the number of meetings attended by each of the Directors of the Company during their term in office in the financial year is as follows.

Director	Meetings held	Meetings attended
Mr R Davis	6	5
Mr A Hewlett	6	6
Mr N El Sayed	6	6
Mr S Bodensteiner	6	5

The Company does not have any committees. Matters usually considered by an audit, remuneration or nomination committee were dealt with by the whole Board during regular Board meetings.

5. PRINCIPAL ACTIVITY

The principal activity of the Group during the course of the financial year was mineral exploration in Australia.

6. OPERATING AND FINANCIAL REVIEW

The Group incurred an after-tax loss for the year of \$654,312 (2017: loss \$528,328).

Corporate:

The following issues of ordinary shares were completed during the year:

- On 17 August 2017 the Company issued 250,000 shares at 4.3 cents per share to acquire tenements;
- On 12 September 2017 the Company completed a private placement of 35,500,000 shares at 3.5 cents per share, raising \$1,242,500;
- On 19 October 2017, the Company allotted 8,553,581 shares at 3.5 cents per share, raising \$299,375 before costs, as part of the Entitlement Issue;
- On 27 October 2017, the Company issued 24,883,515 shares at 3.5 cents per share, raising \$870,923 before costs, representing the shortfall of the Entitlement Issue; and
- On 1 November 2017, the Company issued 1,428,571 shares to consultants in lieu of fees of \$50,000, at 3.5 cents per share.

DIRECTORS' REPORT (CONTINUED)

Subsequent to the year end, the Company raised \$806,776 (before costs) through a non-renounceable rights issue of 161,355,200 options. The offer was completed on the basis of 3 options for every 5 shares held, and the options were issued for 0.5 cents per option. The options issued under the offer are exercisable at 3 cents per share on or before 30 September 2020.

The following options were granted during the period:

- 2,412,798 options with an exercise price of \$0.07 and an expiry date of 31 August 2020 were granted on 11 September 2017
- 1,500,000 options with an exercise price of \$0.07 and an expiry date of 30 November 2019 were granted on 1 December 2017

The following options expired during the period:

- 8,338,334 options with an exercise price of \$0.10 expired on 30 July 2017
- 500,000 options with an exercise price of \$0.10 expired on 6 August 2017
- 1,000,000 options with an exercise price of \$0.10 expired on 11 September 2017
- 7,100,000 options with an exercise price of \$0.14 expired on 30 November 2017
- 1,000,000 options with an exercise price of \$0.10 expired on 30 November 2017
- 3,811,953 options with an exercise price of \$0.15 expired on 6 February 2018

No options have expired subsequent to the end of the financial year.

No options were exercised during the financial year or up to the date of this report.

Exploration Activities:

The Group is focused on discovering large iron oxide copper-gold (IOCG) deposits of the Ernest Henry style (approximately 220 million tonnes at 1.1% Cu and 0.5g/t Au) within its strategic Mount Isa project area in Northwest Queensland.

The Group's tenure covers an area of approximately 3000km² in the central part of this world-class mining district.

During the past year programs of geological mapping, geochemical sampling, airborne and ground based geophysical surveys and RC and diamond drilling were undertaken at several prospects.

High grade copper and gold mineralisation was intercepted by several programs of RC and diamond drilling at the Jubilee project in joint venture with MIM Limited (a Glencore subsidiary). In addition, some of the highest-grade cobalt intercepts to date were returned from diamond drilling at the Millennium Cobalt Project in joint venture with TSX listed Global Energy Metals Corporation (GEMC). Drill core samples have now been collected from both projects for metallurgical test work.

In late June 2018 the Company announced the proposed sale of the Millennium project and several other exploration stage cobalt targets to GEMC - a focused cobalt explorer and developer. Hammer will retain exposure to the Millennium and the other projects through a significant shareholding in GEMC.

Active targeting and ground based exploration activities continued during the year on Hammer's 100%-owned tenure with drilling programs at Elaine, Kalman West, Hammertime, Pharaoh North and Serendipity. A new discovery was also made at Perentie within the Dronfield project area. Outcropping high grade copper and gold mineralisation has been located at surface at several localities at Perentie and further field mapping and rock chip sampling programs are currently underway to better define these targets.

In June 2018 it was announced that Hammer and Newmont Exploration Australia Pty Ltd had reached a negotiated conclusion to the Mt Isa Farm-In and Joint Venture Agreement that had commenced in December 2015 over the Overlander, Even Steven and Dronfield IOCG targets. Hammer retained a 100% interest in these highly prospective target areas and is seeking new partners to assist with advancing exploration on these targets and the Mount Isa Project as a whole.

DIRECTORS' REPORT (CONTINUED)

Following a period of successful tenement acquisition and consolidation activities a high resolution magnetic-radiometric survey was completed over the large Mount Philp Breccia IOCG target areas north of Kalman along with reconnaissance soil sampling and geological mapping. This area is one of several areas within Hammer's Mount Isa tenure that is considered to have significant potential for large copper-gold deposits.

Looking forward Hammer will continue to progress the advanced Jubilee copper-gold project as well as the new Perentie and Mount Philp Breccia copper-gold targets.

7. DIVIDENDS

No dividends were paid or declared by the Company during the financial year.

8. EVENTS SUBSEQUENT TO BALANCE DATE

Subsequent to the year end, the Company raised \$806,776 (before costs) through a non-renounceable rights issue of 161,355,206 options. The offer was completed on the basis of 3 options for every 5 shares held, and the options were issued for 0.5 cents per option. The options issued under the offer are exercisable at 3 cents per share on or before 30 September 2020. The Company also raised an additional \$200,000 through the issue of 6,666,667 shares at \$0.03 per share and 4,000,000 free attaching options exercisable at 3 cents per share on or before 30 September 2020. Additionally, 2,305,074 ordinary shares and 236,280 options exercisable at 7 cents on or before 31 August 2020 were issued to the underwriter in lieu of fees.

Other than the above, there has not been any other 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.

9. LIKELY DEVELOPMENTS

The Company will continue planning and executing exploration and development work on its existing projects in Australia as well as projects under review in Australia to complement and expand on existing tenement holdings.

10. DIRECTORS' INTERESTS

The relevant interest of each Director in the shares and options of the Company as notified by the Directors to the Australian Securities Exchange in accordance with S205G(1) of the Corporations Act 2001, at the date of this report is as follows:

Director	Ordinary shares	Options over ordinary shares
Mr R Davis	11,000,000	10,600,000
Mr A Hewlett	5,525,476	5,000,000
Mr N El Sayed	19,500	511,700
Mr S Bodensteiner	30,568	518,340

The above table includes indirect shareholdings held by related parties to the directors.

11. ENVIRONMENTAL REGULATIONS

In the course of its normal mining and exploration activities the Group adheres to environmental regulations imposed on it by the various regulatory authorities, particularly those regulations relating to ground disturbance and the protection of rare and endangered flora and fauna. The Group has complied with all material environmental requirements up to the date of this report. The Board believes that the Group has adequate systems in place for the management of its environmental requirements and is not aware of any breach of these environmental requirements as they apply to the Company.

DIRECTORS' REPORT (CONTINUED)

12. REMUNERATION REPORT – AUDITED

12.1 Principles of compensation

Remuneration levels for key management personnel and other staff of the Group are competitively set to attract and retain appropriately qualified and experienced personnel and therefore includes a combination of cash paid and the issuance of options and rights. Key management personnel comprise the directors of the Company and senior executives for the Group. Staff remuneration is reviewed annually.

Consequences of performance on shareholder wealth

In establishing performance measures and benchmarks to ensure incentive plans are appropriately structured to align corporate behaviour with the long-term creation of shareholder wealth, the Board has regard for the stage of development of the Company's business, share price, operational and business development achievements (including results of exploration activities) that are of future benefit to the Company.

Service contracts

Alexander Hewlett - Executive Director:

The Company has entered into a Consulting agreement with Mazza Resources Pty Ltd (an entity of which Mr Hewlett is the principal) on 22 September 2014. A Consulting fee of \$220,000 per annum is payable with a 3-year term. The Company may terminate the agreement after twelve months by giving six months' notice or paying the executive an amount equal to six months of the consulting fee. The executive may, after twelve months from the commencement of the agreement, terminate this agreement by giving three months' notice to the Company. Currently the base cash component of remuneration is not dependent on the satisfaction of any performance condition. In an effort to reduce operating costs, Mr Hewlett has agreed to a 32% reduction of fees to \$150,000. The original term of the Consulting agreement expired on 22 September 2017 and the Company and Mr Hewlett have agreed to roll the agreement forward on a similar basis and for a term to be agreed.

Russell Davis – Executive Chairman:

The Company has entered into an Executive Service agreement with Mr Davis on 22 September 2014. An Executive service fee of \$220,000 per annum is payable with a 3-year term. The Company may terminate the engagement after twelve months by giving six months' notice or paying the executive an amount equal to six months of the executive fee. The executive may, after twelve months from the commencement of the agreement, terminate this agreement by giving three months' notice to the Company. Currently the base cash component of remuneration is not dependent on the satisfaction of any performance condition. In an effort to reduce operating costs, the Mr Davis has agreed to a 32% reduction of fees to \$150,000. The original term of the Consulting agreement expired on 22 September 2017 and the Company and Mr Davis have agreed to roll the agreement forward on a similar basis and for a term to be agreed.

Mark Pitts – Company Secretary

Mr Pitts is a Partner in the corporate advisory firm Endeavour Corporate providing secretarial support and corporate and compliance advice, pursuant to a contract between Endeavour Corporate and the Company. The contract with Endeavour Corporate has no fixed term with the option of termination by either party with two months' written notice. Mr Pitts is not entitled to any termination payments other than for services rendered at time of termination.

DIRECTORS' REPORT (CONTINUED)

Non-executive directors

From 1 July 2013, all non-executive Directors receive a fixed Directors' fee of \$30,000 (plus superannuation benefits of 9.5%) per annum.

The maximum aggregate amount of non-executive Directors' fees payable by the Company as approved by the shareholders at the 2011 annual general meeting is \$300,000 per annum.

There are no other items of contingent remuneration to Directors.

Share trading policy

In December 2010, the Group introduced a share trading policy which sets out the circumstances in which directors, executives, employees and other designated persons may deal with securities held by them in the Company. This includes any shares or any other securities issued by the Company such as options. The policy includes restriction on key management personnel and other employees from entering into arrangements that limit their exposure to losses that would result from share price decreases. Entering into such arrangements has been prohibited by law since 1 July 2011.

DIRECTORS' REPORT (CONTINUED)

12.2 Directors' and senior executives' remuneration

Details of the nature and amount of each major element of the remuneration of each director of the Company and other key management personnel of the Group are:

		Salary & fees	Primary Non-Monetary benefits	Termination payments	Post-employment Superannuation benefits	Equity Compensation Options	Total	Proportion of remuneration performance related	Value of options as proportion of remuneration
		\$	\$	\$	\$	\$	\$	%	%
Directors									
Executive									
Mr R Davis	2018	150,000	-	-	-	-	150,000	-	-
	2017	150,000	-	-	-	-	150,000	-	-
Mr A Hewlett	2018	150,000	-	-	-	-	150,000	-	-
	2017	150,000	-	-	-	-	150,000	-	-
Non-executive									
Mr N El Sayed	2018	30,000	-	-	2,850	-	32,850	-	-
	2017	30,000	-	-	2,850	-	32,850	-	-
Mr S Bodensteiner	2018	30,000	-	-	2,850	-	32,850	-	-
	2017	30,000	-	-	2,850	-	32,850	-	-
Total, all specified Directors	2018	360,000	-	-	5,700	-	365,700	-	-
	2017	360,000	-	-	5,700	-	365,700	-	-
Other Key Management Personnel									
Executives									
Mr M Pitts (Company Secretary)	2018	42,000	-	-	-	1,405	43,405	3.2%	3.2%
	2017	50,000	-	-	-	-	50,000	-	-
Total key management personnel and Directors of the Company and Group	2018	402,000	-	-	5,700	1,405	409,105	0.3%	0.3%
	2017	410,000	-	-	5,700	-	415,700	-	-

DIRECTORS' REPORT (CONTINUED)

12.3 Value of options to executives

The value of options will only be realised if and when the market price of the Company shares, as quoted on the Australian Securities Exchange, rises above the Exercise Price of the options. Further details of the options are contained in the section Share Options below.

12.4 Options and rights over equity instruments granted as compensation

150,000 options were issued to the Company Secretary during the year. These options are exercisable at \$0.07 on or before 30 November 2019. No options were issued to Directors. No options previously granted as compensation have been exercised during the year or to the date of this report.

12.5 Analysis of options and rights over equity instruments granted as compensation

The table below details the vesting profile of the options granted as remuneration to each key management person during the year. No options were granted as remuneration to key management personnel during the prior year.

Year ended 30 June 2018	Number of options granted	Date granted	% Vested	% Forfeited / Lapsed	Financial year in which grant vested
Key Management Person					
Mr M Pitts	150,000	15 December 2017	100%	-	30 June 2018

The fair value of the options issued during the year was determined by reference to the Black-Scholes option pricing model. The key inputs and valuations are summarised as follows:

	Options issued to KMP
Underlying security spot price on grant date	\$0.034
Exercise price	\$0.07
Grant date	15 December 2017
Expiration date	30 November 2019
Life (years)	1.96
Volatility	86%
Risk free rate	1.91%
Dividend Yield	-
Number of options	150,000
Valuation per option	\$0.00937
Remaining life (years)	1.42

12.6 Option holdings

The movement during the reporting period in the number of options over ordinary shares in Hammer Metals Limited held, directly, indirectly or beneficially, by each key management person, including their personally-related entities, is as follows:

Year ended 30 June 2018	Held at beginning of period	Granted	Purchased	Exercised	Lapsed or Expired	Held at end of period	Vested and exercisable at end of period
Key Management Person							
Mr R Davis	6,625,000	-	-	-	(2,625,000)	4,000,000	4,000,000
Mr A Hewlett	6,166,667	-	-	-	(2,166,667)	4,000,000	4,000,000
Mr N El Sayed	1,500,000	-	-	-	(1,000,000)	500,000	500,000
Mr S Bodensteiner	500,000	-	-	-	-	500,000	500,000
Mr M Pitts	500,000	150,000	-	-	-	650,000	650,000

DIRECTORS' REPORT (CONTINUED)

12.7 Equity holdings and transactions

No shares were granted to key management personnel during the year as compensation (2017: Nil).

The movement during the reporting period in the number of ordinary shares in Hammer Metals Limited held directly, indirectly or beneficially, by each key management person, including their personally-related entities (shown on a post-consolidation basis), is as follows:

Year ended 30 June 2018	Held at beginning of period	Purchases	Sales	Held at end of period
Mr R Davis	8,391,667	2,608,333	-	11,000,000
Mr A Hewlett	5,525,476	-	-	5,525,476
Mr N El Sayed	19,500	-	-	19,500
Mr S Bodensteiner	30,568	-	-	30,568
Mr M Pitts	53,334	-	-	53,334

12.8 Key management personnel transactions

The following table provides the total amount of transactions which have been entered into with related parties for the relevant financial year exclusive of GST:

Key management Person	Transaction	Transaction value year ended		Balance outstanding as at	
		30 June 2018	30 June 2017	30 June 2018	30 June 2017
		\$	\$	\$	\$
Mark Pitts	Accounting services	23,556	33,261	6,488	3,657

The Company paid fees to Endeavour Corporate, a company associated with Mark Pitts, for accounting and financial reporting services provided to the company.

END OF REMUNERATION REPORT

13. SHARE OPTIONS

Unissued shares under option

At the date of this report unissued ordinary shares of the Company under option are:

	Expiry Date	Exercise price	Number of options
Directors' Options	30 June 2020	\$0.06	9,000,000
Employee / Contractor Options	30 June 2020	\$0.06	3,800,000
Advisor options	29 June 2019	\$0.075	5,000,000
Advisor options	31 August 2020	\$0.07	2,676,078
Employee / Contractor Options	30 November 2019	\$0.07	1,500,000
Listed HMXOD options	30 September 2020	\$0.03	165,355,206

These options do not entitle the holder to participate in any share issue of the Company or any other body corporate.

DIRECTORS' REPORT (CONTINUED)

Shares issued on exercise of options

The Company has not issued ordinary shares as a result of the exercise of options during this year or the previous financial year.

No shares have been issued since the year end to the date of this report as a result of the exercise of options.

14. INDEMNIFICATION OF OFFICERS AND AUDITORS

The Company has entered into Director and Officer Protection Deeds (Deed) with each Director and the Company Secretary (officers). Under the Deed, the Company indemnifies the officers to the maximum extent permitted by law and the Constitution against legal proceedings, damage, loss, liability, cost, charge, expense, outgoing or payment (including legal expenses on a solicitor/client basis) suffered, paid or incurred by the officers in connection with the officers being an officer of the Company, the employment of the officer with the Company or a breach by the Company of its obligations under the Deed.

Also pursuant to the Deed, the Company must insure the officers against liability and provide access to all board papers relevant to defending any claim brought against the officers in their capacity as officers of the Company.

The Company has paid insurance premiums during the year in respect of liability for any past, present or future Directors, secretary, officers and employees of the Company or related body corporate. The insurance policy does not contain details of the premium paid in respect of individual officers of the Company. Disclosure of the nature of the liability cover and the amount of the premium is subject to a confidentiality clause under the insurance policy.

The Company has not provided any insurance or indemnification for the Auditor of the Company.

15. NON-AUDIT SERVICES

During the year, KPMG, the Company's auditor provided taxation compliance services in addition to their statutory duties.

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

The lead auditor's independence declaration is set out on page 11 and forms part of the Directors' report for the financial year ended 30 June 2018.

17. SIGNIFICANT CHANGES IN STATE OF AFFAIRS

In the opinion of Directors, other than that disclosed elsewhere in this report, there were no other significant changes in the state of affairs of the Group that occurred during the financial year under review.

This report is made with a resolution of the Directors:



R Davis
Executive Chairman
Perth
28 September 2018



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 audit of Hammer Metals Limited for the financial year ended 30 June 2018 there have been:

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

A stylized blue ink signature of the KPMG firm, appearing as 'KPMG.' with a dot at the end.

KPMG

A blue ink signature of R Gambitta, written in a cursive style.

R Gambitta
Partner

Perth

28 September 2018

**CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 30 JUNE 2018**

	Note	30 June 2018 \$	30 June 2017 \$
Current Assets			
Cash and cash equivalents	10	934,045	838,027
Trade and other receivables	11	106,751	335,161
Other financial assets	12	454,746	359,954
Total current assets		1,495,542	1,533,142
Non-current assets			
Other financial assets	12	60,000	86,250
Plant and equipment	13	2,420	3,755
Exploration and evaluation expenditure	14	11,316,751	9,377,823
Total non-current assets		11,379,171	9,467,828
Total assets		12,874,713	11,000,970
Current liabilities			
Trade and other payables	15	273,932	132,142
Advanced cash call		448,007	359,954
Total current liabilities		721,939	492,096
Total liabilities		721,939	492,096
Net assets		12,152,774	10,508,874
Equity			
Share capital	16	44,907,743	42,655,110
Reserves	17	788,885	1,230,127
Accumulated losses		(33,543,854)	(33,376,363)
Total equity		12,152,774	10,508,874

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

**CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
FOR THE YEAR ENDED 30 JUNE 2018**

	Note	30 June 2018	30 June 2017
		\$	\$
Other income	4	113,738	139,940
Marketing expenses		(146,544)	(75,986)
Administrative expenses		(565,933)	(493,951)
Share based payments		(14,054)	-
Occupancy expenses		(45,255)	(46,073)
Depreciation	5	(1,335)	(4,955)
Project evaluation and generation expenses		-	-
Exploration expenditure written off	14	-	(275,699)
Impairment of other financial assets		(9,500)	-
Other expenses		(9,582)	-
Result from operating activities	5	(678,465)	(756,724)
Finance income	6	6,794	28,784
Net finance income / (expense)		6,794	28,784
Loss before income tax		(671,671)	(727,940)
Income tax benefit	8	17,359	199,612
Net loss for the year from continuing operations		(654,312)	(528,328)
Other comprehensive income			
<i>Items that may be reclassified subsequently to profit or loss</i>			
Net change in fair value of financial assets		(18,750)	(11,250)
Other comprehensive loss for the year, net of income tax		(18,750)	(11,250)
Total Comprehensive loss for the year		(673,062)	(539,578)
Loss per share:			
Basic and diluted loss per share (cents per share)	9(a)	(0.26)	(0.28)

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

**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 30 JUNE 2018**

	Share capital	Share based payment reserve	Fair value reserve	Convertible Note Reserve	Accumulated losses	Total
Balance at 1 July 2016	39,800,503	2,508,368	30,000	614,153	(33,975,414)	8,977,610
Loss for the year	-	-	-	-	(528,328)	(528,328)
Other comprehensive income / loss	-	-	(11,250)	-	-	(11,250)
Total comprehensive loss for the period	-	-	(11,250)	-	(528,328)	(539,578)
Shares issued for cash	2,258,658	-	-	-	-	2,258,658
Shares issued for asset acquisition	63,750	-	-	-	-	63,750
Conversion of convertible notes	614,153	-	-	(614,153)	-	-
Share issue costs	(81,954)	30,000	-	-	-	(51,954)
Share based payments	-	(1,326,991)	-	-	1,326,991	-
Distribution to owners (Exploration Development Incentive credits)	-	-	-	-	(199,612)	(199,612)
Balance at 30 June 2017	42,655,110	1,211,377	18,750	-	(33,376,363)	10,508,874
Balance at 1 July 2017	42,655,110	1,211,377	18,750	-	(33,376,363)	10,508,874
Loss for the year	-	-	-	-	(654,312)	(654,312)
Other comprehensive income / loss	-	-	(18,750)	-	-	(18,750)
Total comprehensive loss for the period	-	-	(18,750)	-	(654,312)	(673,062)
Shares issued for cash	2,412,798	-	-	-	-	2,412,798
Shares issued in lieu of fees	50,000	-	-	-	-	50,000
Share based payments	-	64,329	-	-	-	64,329
Options expired	-	(486,821)	-	-	486,821	-
Share issue costs	(210,165)	-	-	-	-	(210,165)
Balance at 30 June 2018	44,907,743	788,885	-	-	(33,543,854)	12,152,774

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

**CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 30 JUNE 2018**

	Note	30 June 2018 \$	30 June 2017 \$
Cash flows from operating activities			
Interest received		6,794	28,784
Rental income received		3,600	-
Fuel rebate received		22,086	-
Cash payments in the course of operations		(624,683)	(830,704)
Net cash used in operating activities	22	(592,203)	(801,920)
Cash flows from investing activities			
Payments for exploration expenditure		(2,044,001)	(2,692,620)
Cash calls and management fees from farm-in and joint venture partners		92,384	206,515
Option fee received		193,997	-
Receipt of research and development grant		123,682	-
Sale of royalty	4	-	30,000
Proceeds on sale of equipment		30,000	-
Payments for purchase of plant and equipment	13	-	(2,746)
Net cash used in investing activities		(1,603,938)	(2,458,851)
Cash flows from financing activities			
Proceeds from issue of share capital		2,412,798	2,251,158
Transaction costs from issue of shares		(120,640)	(44,454)
Net cash from financing activities		2,292,158	2,206,704
Net increase / (decrease) in cash and cash equivalents		96,018	(1,054,067)
Cash and cash equivalents at 1 July		838,027	1,892,094
Cash and cash equivalents at 30 June	10	934,045	838,027

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. REPORTING ENTITY

Hammer Metals Limited (the “Company”) is a company domiciled in Australia. The Company’s registered office is Suite 1, 827 Beaufort Street, Mt. Lawley WA. The consolidated financial statements of the Company for the financial year ended 30 June 2018 comprises the Company and its subsidiaries (together referred to as the “Group”).

The Group is a for profit entity and is primarily involved in the exploration and extraction of mineral resources.

2. BASIS OF PREPARATION

(a) Statement of compliance

The consolidated financial statements are general purpose financial statements which have been prepared in accordance with Australian Accounting Standards (AASBs) adopted by the Australian Accounting Standards Board (AASB) and the Corporations Act 2001. The consolidated financial statements also comply with International Financial Reporting Standards (IFRS’s) adopted by the International Accounting Standards Board (IASB).

The consolidated financial report was authorised for issue by the Directors on 28 September 2018.

(b) Basis of measurement

The financial report is prepared on the historical cost basis except for share based payments and available for sale financial assets which are measured at their fair value. Non-current assets held for sale are measured at the lower of their carrying amount and fair value less costs to sell.

(c) Functional and presentation currency

The financial report is presented in Australian dollars which is the functional and presentation currency of the Company and its subsidiaries.

(d) Use of estimates and judgements

Set out below is information about:

- critical judgements in applying accounting policies that have the most significant effect on the amounts recognised in the financial statements; and
- assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment within the next financial year.

Critical judgements

i. Going concern

A key assumption underlying the preparation of the financial statements is that the Group will continue as a going concern. An entity is a going concern when it is considered to be able to pay its debts as and when they are due, and to continue in operation without any intention or necessity to liquidate or otherwise wind up its operations. A significant amount of judgement has been required in assessing whether the Group is a going concern, as set out in note 2(f).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2. BASIS OF PREPARATION (continued)

(d) Use of estimates and judgements (continued)

Estimates and assumptions

ii. Ore Reserves and Mineral Resources

Economically recoverable reserves represent the estimated quantity of product in an area of interest that can be expected to be profitably extracted, processed and sold under current and foreseeable economic conditions. The Group determines and reports ore reserves and mineral resources under the standards incorporated in the Australasian Code for Reporting Exploration Results, Mineral Resources and Ore Reserves, 2012 edition (the JORC Code). The determination of ore reserves or mineral resources includes estimates and assumptions about a range of geological, technical and economic factors, including: quantities, grades, production techniques, recovery rates, production costs, transport costs, commodity demand, commodity prices and exchange rates. Changes in ore reserves and mineral resources impact the assessment of recoverability of exploration and evaluation assets, provisions for site restoration and the recognition of deferred tax assets, including tax losses.

iii. Exploration and evaluation assets

Determining the recoverability of exploration and evaluation expenditure capitalised in accordance with the Group's accounting policy (refer note 3(n)), requires estimates and assumptions as to future events and circumstances, in particular, whether successful development and commercial exploitation, or alternatively sale, of the respective areas of interest will be achieved. Critical to this assessment is estimates and assumptions as to ore reserves (refer note 2(d)(ii)), the timing of expected cash flows, exchange rates, commodity prices and future capital requirements. Changes in these estimates and assumptions as new information about the presence or recoverability of an ore reserve becomes available, may impact the assessment of the recoverable amount of exploration and evaluation assets. If, after having capitalised the expenditure under accounting policy 3(n), a judgement is made that recovery of the expenditure is unlikely, an impairment loss is recorded in the statement of profit and loss and other comprehensive income in accordance with accounting policy 3(f). The carrying amounts of exploration and evaluation assets are set out in note 14.

iv. Impairment of assets

The recoverable amount of each non-financial asset is determined as the higher of the value-in-use and fair value less costs to sell, in accordance with the Group's accounting policy note 3(f). Determination of the recoverable amount of an asset based on a discounted cash flow model, requires the use of estimates and assumptions, including: the appropriate rate at which to discount the cash flows, the timing of the cash flow and the expected life of the relevant area of interest, exchange rates, commodity prices, ore reserves, future capital requirements and future operation performance. Changes in these estimates and assumptions impact the recoverable amount of the asset, and accordingly could result in an adjustment to the carrying amount of that asset.

v. 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2. BASIS OF PREPARATION (continued)

(e) New standards and interpretations not yet adopted

The following standards, amendments to standards and interpretations have been identified as those which may impact the entity in the period of initial application. They are not yet effective and have not been applied in preparing this financial report.

- AASB 9 Financial Instruments includes revised guidance on the classification and measurement requirements of financial liabilities and assets, including a new expected credit loss model for calculating impairment, and general hedge accounting requirements. AASB 9 is effective for annual periods beginning on or after 1 January 2018 with early adoption permitted. The adoption of AASB 9 is not expected to have a material impact on the Group's financial assets or financial liabilities.
- AASB 15 Revenue from Contracts with Customers provides a single, principles based five-step model to be applied to all contracts with customers. Guidance is provided for determining whether, how much and when revenue is recognised. New disclosures about revenue are also introduced. AASB 15 is effective for annual periods beginning on or after 1 January 2018 with early adoption permitted. The impact on the Group's revenue recognition of the adoption of AASB 15 is not expected to have a material impact.
- AASB 16 Leases provides a new lessee accounting model requiring the recognition of assets and liabilities for all leases with a term greater than 12 months, unless the underlying asset is of low value. It requires the lessee to recognise a right-of-use asset, representing the rights to use the underlying lease asset and a lease liability representing the obligation of lease payments. AASB 16 is effective for annual periods beginning on or after 1 January 2019 with early adoption permitted. The impact on the Group's financial assets and financial liabilities of the adoption of AASB 16 has yet to be determined and will depend upon the leases in place on transition.
- AASB 2016-5 Amendments to Australian Accounting Standards - Classification and Measurement of Share-based Payment Transactions. The standard makes amendments to AASB 2 Share-based Payment. The amendments address the accounting for the effects of vesting and non-vesting conditions and the accounting for a modification to the terms and conditions of a share-based payment that changes the classification of the transaction from cash-settled to equity-settled, is effective for annual reporting periods beginning on or after 1 January 2018 and it is not expected that this will have a significant impact on the consolidated financial statements.

(f) 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 year ended 30 June 2018, the Group has incurred a consolidated loss before tax of \$671,671 and net cash outflows from operating and investing activities of \$2,196,140. As at 30 June 2018 the Group had \$934,045 in cash and cash equivalents and net current assets of \$773,603.

As announced on the 12 September 2018, the Company completed a non-renounceable rights issue of 161,355,200 options, raising \$806,776 before costs of the offer. Furthermore, the Company has agreed to issue an additional 6,666,667 shares at \$0.03 per share to raise an additional \$200,000 as a share placement to the underwriter of the rights issue.

Whilst not immediately required, the Group will need to raise additional funds to meet its ongoing obligations and tenement expenditure commitments and subject to the results of its ongoing exploration activities, expand or accelerate its work programs.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2. BASIS OF PREPARATION (continued)

(f) Going concern (continued)

The Group's capacity to raise additional funds will be impacted by the success of the ongoing exploration activities and market conditions. Additional sources of funding available to the Group include a capital raising via preferential issues to existing shareholders, placements to new and existing investors or through farm in or similar arrangements.

If necessary the Group can delay exploration expenditure and the directors can also institute cost saving measures to further reduce corporate and administrative costs.

However, should the above planned activities to raise or conserve capital not be successful, there exists a material uncertainty surrounding the Group's ability to continue as a going concern and, therefore, realise its assets and dispose of its liabilities in the ordinary course of business and at the amounts stated in the financial report.

3. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES

The Group has consistently applied the accounting policies set out in note 3 to all periods presented in these consolidated financial statements.

(a) Basis of consolidation

i. Subsidiaries

Subsidiaries are entities controlled by the Group. The Group controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The financial statements of subsidiaries are included in the consolidated financial statements from the date on which control commences until the date on which control ceases.

ii. Investments in associates

Associates are those entities in which the Group has significant influence, but not control or joint control, over the financial and operating policies. Significant influence is presumed to exist when the Group holds between 20 percent and 50 percent of the voting power of another entity.

Investments in associates are accounted for using the equity method and are recognised initially at cost. The cost of the investments includes transaction costs.

The consolidated financial statements include the Group's share of the profit or loss and other comprehensive income of equity accounted investees, after adjustments to align the accounting policies with those of the Group, from the date that significant influence commences until the date that significant influence ceases.

When the Group's share of losses exceeds its interest in an equity accounted investee, the carrying amount of the investment, including any long-term interest that form part thereof, is reduced to zero, and the recognition of further losses is discontinued except to the extent that the Group has an obligation or has made payments on behalf of the investee.

iii. Joint arrangements

The Group classifies its interests in joint arrangements as either joint operations or joint ventures depending on the Group's rights to the assets and obligation for the liabilities of the arrangements. When making this assessment, the Group considers the structure of the arrangements, the legal form of any separate vehicles, the contractual terms of the arrangements and other facts and circumstances.

iv. Transactions eliminated on consolidation

Intragroup balances, and any unrealised gains and losses or income and expenses arising from intragroup transactions, are eliminated in preparing the consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

3. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(a) Basis of consolidation (continued)

v. *Business combinations*

Business combinations are accounted for by applying the acquisition method.

For every business combination, the Group identifies the acquirer, which is the combining entity that obtains control of the other combining entities or businesses. The Group controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The acquisition date is the date on which control is transferred to the acquirer. Judgement is applied in determining the acquisition date and determining whether control is transferred from one party to another.

vi. *Contingent liabilities*

A contingent liability of the acquiree is assumed in a business combination only if such a liability represents a present obligation and arises from a past event, and its fair value can be measured reliably.

vii. *Non-controlling interest*

The Group measures any non-controlling interest at its proportionate interest in the identifiable net assets of the acquiree.

(b) Foreign currency

Transactions in foreign currencies are translated at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated to Australian dollars at the foreign exchange rate ruling at that date. Foreign exchange differences arising on translation are recognised in the statement of profit and loss and other comprehensive income. Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated to Australian dollars at foreign exchange rates ruling at the dates the fair value was determined.

The assets and liabilities of foreign operations, including fair value adjustments arising on consolidation, are translated to Australian dollars at foreign exchange rates ruling at the balance sheet date. The revenues and expenses of foreign operations are translated to Australian dollars at rates approximating the foreign exchange rates ruling at the dates of the transactions. Foreign exchange differences arising on retranslation are recognised directly in a separate component of equity.

(c) Plant and equipment

Items of plant and equipment are stated at cost less accumulated depreciation (see below) and impairment losses (see accounting policy 3(f)). Depreciation is charged to the statement of profit and loss and other comprehensive income on a straight-line basis over their estimated useful lives. The estimated useful lives in the current and comparative periods are as follows:

- office equipment 3 to 4 years

The residual value, if significant, is reassessed annually.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

3. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(d) Financial instruments

Available-for-sale financial assets, comprising principally marketable equity securities, are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in current assets unless management intends to hold the investment for greater than twelve months from the balance sheet date.

Purchases and sales of investments 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 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.

Available-for-sale financial assets are subsequently carried at fair value. Unrealised gains and losses arising from changes in the fair value of non-monetary securities classified as available-for-sale are recognised in equity in the fair value reserve. When securities classified as available-for-sale are sold or impaired, the accumulated fair value adjustments are included in the statement of profit and loss and other comprehensive income as gains and losses from investment securities.

The fair values of quoted investments are based on quoted bid prices at reporting date.

(e) Cash and cash equivalents

Cash and cash equivalents comprise cash balances and call deposits with an original maturity of three months or less. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are included as a component of cash and cash equivalents for the purpose of the statement of cash flows.

(f) Impairment

Financial assets

A financial asset is assessed at each reporting date to determine whether there is any objective evidence that it is impaired. A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset. For an investment in an equity security, a significant or prolonged decline in its fair value below its cost is objective evidence of impairment. The Group considers a decline of 20% to be significant and a period of nine months to be prolonged.

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount, and the present value of the estimated future cash flows discounted at the original effective interest rate. An impairment loss in respect of an available-for-sale financial asset is calculated by reference to its fair value.

Individually significant financial assets are tested for impairment on an individual basis. The remaining financial assets are assessed collectively in groups that share similar credit risk characteristics.

All impairment losses are recognised in profit or loss. Any cumulative loss in respect of an available-for-sale financial asset recognised previously in equity is transferred to profit or loss, calculated as the difference between the acquisition cost and the current fair value, less any impairment loss recognised previously in profit or loss.

An impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognised. For financial assets measured at amortised cost and available-for-sale financial assets that are debt securities, the reversal is recognised in profit or loss. For available-for-sale financial assets that are equity securities, the reversal is recognised in equity.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

3. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(f) Impairment (continued)

Non-financial assets

The carrying amounts of the Company's non-financial assets, other than deferred tax assets (see accounting policy 3(k)) are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists then the asset's recoverable amount is estimated. For goodwill and intangible assets that have indefinite lives or that are not yet available for use, the recoverable amount is estimated each year at the same time.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For the purpose of impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the "cash-generating unit"). The goodwill acquired in a business combination, for the purpose of impairment testing, is allocated to cash-generating units that are expected to benefit from the synergies of the combination.

An impairment loss is recognised if the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. Impairment losses are recognised in profit or loss. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the units and then to reduce the carrying amount of the other assets in the unit (group of units) on a pro rata basis.

An impairment loss in respect of goodwill is not reversed. In respect of other assets, impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

(g) Share capital

Ordinary shares

Transaction costs of an equity transaction are accounted for as a deduction from equity, net of any related income tax benefit.

(h) Interest bearing borrowings

Interest-bearing borrowings are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost with any difference between cost and redemption value being recognised in the statement of profit and loss and other comprehensive income over the period of the borrowings on an effective interest basis.

(i) Employee benefits

Defined contribution plans

Obligations for contributions to defined contribution pension plans are recognised as an expense in the statement of profit and loss and other comprehensive income as incurred.

Share based payment transactions

The share option programme allows Company and Group employees to acquire shares of the Company. The fair value of options granted is recognised as an employee expense with a corresponding increase in equity.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

3. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(i) Employee benefits (continued)

The fair value is measured at grant date and spread over the period during which the employees become unconditionally entitled to the options. The fair value of the options granted is measured using the Black Scholes option pricing model, taking into account the terms and conditions upon which the options were granted. The amount recognised as an expense is adjusted to reflect the actual number of share options that vest except where forfeiture is only due to share prices not achieving the threshold for vesting.

Wages, salaries, annual leave, sick leave and non-monetary benefits

Liabilities for employee benefits for wages, salaries, annual leave and sick leave represent present obligations resulting from employees' services provided to reporting date, calculated at undiscounted amounts based on remuneration wage and salary rates that the Group expects to pay as at reporting date including related on-costs, such as, workers compensation insurance and payroll tax.

(j) Finance income and expenses

Net finance income

Net finance income comprises interest payable on borrowings calculated using the effective interest method, interest receivable on funds invested and realised foreign exchange gains and losses. Interest income is recognised in the statement of profit and loss and other comprehensive income as it accrues, using the effective interest method.

(k) Income tax

Income tax on the statement of profit and loss and other comprehensive income for the periods presented comprises current and deferred tax. Income tax is recognised in the statement of profit and loss and other comprehensive income except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantially enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The following temporary differences are not provided for: the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss and differences relating to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable future. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

The Company and its Australian resident wholly owned subsidiaries adopted the tax consolidation legislation with effect from 1 July 2014 and are therefore taxed as a single entity from that date. Hammer Metals Ltd is the head entity within the tax-consolidated group. Any current tax liabilities (or assets) and deferred tax assets arising from unused tax losses of the subsidiaries are assumed by the head entity in the tax-consolidated group.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

3. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(l) Provisions

A provision is recognised in the balance sheet when the Group has a present legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, when appropriate, the risks specific to the liability.

A provision for site restoration in respect of contaminated and disturbed land, and the related expense, is recognised when the land is contaminated or disturbed. Such activities include dismantling infrastructure, removal and treatment of waste material, and land rehabilitation, including restoring, topsoiling and revegetation of the disturbed area.

(m) 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, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the Board of Directors of the Company.

(n) Exploration and evaluation expenditure

Exploration for and evaluation of mineral resources is the search for mineral resources after the Group has obtained legal rights to explore in a specific area, as well as the determination of the technical feasibility and commercial viability of extracting the mineral resources. Accordingly, exploration and evaluation expenditures are those expenditures incurred by the Group in connection with the exploration for and evaluation of minerals resources before the technical feasibility and commercial viability of extracting mineral resources are demonstrable.

Accounting for exploration and evaluation expenditure is assessed separately for each area of interest. An area of interest is an individual geological area which is considered to constitute a favourable environment for the presence of a mineral deposit or has been proved to contain such a deposit.

Expenditure incurred on activities that precede exploration and evaluation of mineral resources, including all expenditure incurred prior to securing legal rights to explore an area, is expensed as incurred. For each area of interest, the expenditure is recognised as an exploration and evaluation asset where the following conditions are satisfied:

- a) The rights to tenure of the area of interest are current; and
- b) At least one of the following conditions is also met:
 - i. The expenditure is expected to be recouped through successful development and commercial exploitation of an area of interest, or alternatively by its sale; and
 - ii. Exploration and evaluation activities in the area of interest have not, at reporting date, reached a stage which permits a reasonable assessment of the existence or otherwise 'economically recoverable reserves' and active and significant operations in, or in relation to, the area of interest are continuing. Economically recoverable reserves are the estimated quantity of product in an area of interest that can be expected to be profitably extracted, processed and sold under current and foreseeable conditions.

Exploration and evaluation assets include

- Acquisition of rights to explore;
- Topographical, geological, geochemical and geophysical studies;
- Exploratory drilling, trenching, and sampling and
- Activities in relation to evaluating the technical feasibility and commercial viability of extracting the mineral resource.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

3. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(n) Exploration and evaluation expenditure (continued)

General and administrative costs are allocated to, and included in, the cost of exploration and evaluation assets only to the extent that those costs can be related directly to the operational activities in the area of interest to which the exploration and evaluation assets relate. In all other instances, these costs are expensed as incurred.

Exploration and evaluation assets are transferred to Development Assets once technical feasibility and commercial viability of an area of interest is demonstrable. Exploration and evaluation assets are assessed for impairment, and any impairment loss is recognised prior to being reclassified.

The carrying amount of the exploration and evaluation assets is dependent on successful development and commercial exploitation, or alternatively, sale of the respective area of interest.

Impairment testing of exploration and evaluation assets

Exploration and evaluation assets are assessed for impairment if sufficient data exists to determine technical feasibility and commercial viability or facts and circumstances suggest that the carrying amount exceeds the recoverable amount.

Exploration and evaluation assets are tested for impairment when any of the following facts and circumstances exist:

- The term of exploration licence in the specific area of interest has expired during the reporting period or will expire in the near future, and is not expected to be renewed;
- Substantive expenditure on further exploitation for and evaluation of mineral resources in the specific area are not budgeted or planned;
- Exploration for and evaluation of mineral resources in the specific area have not led to the discovery of commercially viable quantities of mineral resources and the decision was made to discontinue such activities in the specified area; or
- Sufficient data exists to indicate that, although a development in the specific area is likely to proceed, the carrying amount of the exploration and evaluation asset is unlikely to be recovered in full from successful development or by sale.

Where a potential impairment is indicated, an assessment is performed for each cash generating unit which is no larger than the area of interest. The Group performs impairment testing in accordance with accounting policy 3(f).

Farm-in arrangements (in the exploration and evaluation phase)

For exploration and evaluation asset acquisitions (farm-in arrangements) in which the Group has made arrangements to fund a portion of the selling partner's (farmor's) exploration and/or future development expenditures (carried interests), these expenditures are reflected in the financial statements as and when the exploration work progresses.

Farm-out arrangements (in the exploration and evaluation phase)

The Group does not record any expenditure made by the farmee on its account. It also does not recognise any gain or loss on its exploration and evaluation farm-out arrangements but redesignates any costs previously capitalised in relation to the whole interest as relating to the partial interest retained.

Monies received pursuant to farm-in agreements are treated as a liability (advanced cash call) on receipt and until such time as the relevant expenditure is incurred.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

3. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(o) Non-current assets held for sale or distribution

Non-current assets, or disposal groups comprising assets and liabilities, that are expected to be recovered primarily through sale or distribution rather than through continuing use, are classified as held for sale or distribution. Immediately before classification as held for sale or distribution, the assets or components of a disposal group, are remeasured in accordance with the Groups' accounting policies. Thereafter, generally the assets, or disposal group, are measured at the lower of their carrying value amount and fair value less cost to sell. Any impairment loss on a disposal group first is allocated to goodwill, and then to remaining assets and liabilities on a pro rata basis, except that no loss is allocated to inventories, financial assets, deferred tax assets which continue to be measured in accordance with the Group's accounting policy. Impairment losses on initial classification as held for sale or distribution and subsequent gains or losses on re-measurement are recognised in profit or loss. Gains are not recognised in excess of any cumulative impairment loss.

(p) Discontinued operations

Classification as a discontinued operation occurs upon disposal or when the operation meets the criteria to be classified as held for sale or distribution (see note 3(o)), if earlier.

(q) Government grants

The Group recognises the refundable research and development tax incentive (received under the tax legislation passed in 2011) as a government grant. This incentive is refundable to the Group regardless of whether the Group is in a tax payable position and is presented by deducting the grant from the carrying amount of the related exploration asset. Government grants are recognised when there is reasonable assurance that (a) the Group will comply with the conditions attaching to them; and (b) the grants will be received; they are then recognised in profit or loss on a systematic basis over the useful life of the asset.

	30 June 2018	30 June 2017
4. OTHER INCOME	\$	\$
Management fee from farm-in partners	110,138	109,940
Rental income	3,600	-
Sale of royalty	-	30,000
	113,738	139,940
5. RESULT FROM OPERATING ACTIVITIES	30 June 2018	30 June 2017
	\$	\$
Net loss for the year before tax has been arrived at after the charging the following expenses:		
Depreciation of plant and equipment	1,335	4,955
Salary and wages	105,000	60,000
Superannuation expense	5,609	5,700
Share based payments	14,054	-
Other employment costs	10,948	9,088
Total employee costs	135,611	74,788
6. FINANCE INCOME AND FINANCE COSTS	30 June 2018	30 June 2017
	\$	\$
Recognised in loss for the year:		
Interest income	6,794	28,784
Net finance income	6,794	28,784

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

	30 June 2018 \$	30 June 2017 \$
7. AUDITORS' REMUNERATION		
Auditors of the Company - KPMG		
Audit services:		
Audit and review of financial reports	41,322	38,341
Non-audit services:		
Taxation compliance services	23,319	17,750
	64,641	56,091

	30 June 2018 \$	30 June 2017 \$
8. INCOME TAX		
(a) Income tax benefit		
Current tax	17,359	199,612
Deferred tax	-	-
Total income tax benefit	17,359	199,612

Numerical reconciliation of income tax benefit to pre-tax accounting loss:

Loss before income tax	(671,671)	(727,940)
Income tax benefit using the Company's domestic tax rate of 27.5% (2017: 30%)	(184,710)	(218,382)
Adjusted for:		
Non-deductible expenses	1,345	1,258
Temporary differences and tax losses not recognised	183,365	217,124
Research and development income tax benefit	17,359	-
Prior year tax losses recognised for exploration development incentive credits distributed to shareholders	-	199,612
Income tax benefit	17,359	199,612

(b) Unrecognised deferred tax assets

Deferred tax assets have not been recognised in respect of the following items:

Temporary timing differences related to:

Prepayments	-	5,915
Investments	14,438	7,875
Property, plant and equipment	2,083	3,252
Accrued expenses and provisions	(2,635)	7,998
Capital raising costs	77,108	70,309
Income tax losses	10,434,781	7,723,344
	10,525,775	7,818,693

(c) Recognised deferred tax assets & liabilities

Temporary timing differences related to:

Other financial assets

Exploration and evaluation expenditure	(3,112,107)	(2,813,347)
Income tax losses	3,112,107	2,813,347

-

The deductible temporary differences and tax losses do not expire under current tax legislation. Deferred tax assets have not been recognised in respect of these items because it is not probable that future taxable profit will be available against which the Group can utilise the benefits from.

During the previous financial year, the Group participated in the Federal Government's Exploration Development Incentive Scheme ("EDI") which entitled the Group to distribute EDI exploration credits to eligible shareholders. EDI credits totalling \$199,612 were distributed on 28th June 2017 and the Group's carried forward losses reduced accordingly.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

8. INCOME TAX (CONTINUED)

(d) Movement of temporary differences recognised during the year ended 30 June 2018:

	Balance 1 July 2017	Profit or Loss	Other comprehensive income	Equity	Balance 30 June 2018
Other financial assets	-				
Exploration and evaluation expenditure	(2,813,347)	(298,760)	-	-	(3,112,107)
Carried-forward tax losses	2,813,347	298,760	-	-	3,112,107
	-	-	-	-	-

(e) Movement of temporary differences recognised during the year ended 30 June 2017:

	Balance 1 July 2016	Profit or Loss	Other comprehensive income	Equity	Balance 30 June 2017
Other financial assets	-				
Exploration and evaluation expenditure	(2,116,517)	(696,830)	-	-	(2,813,347)
Carried-forward tax losses	2,116,517	696,830	-	-	2,813,347
	-	-	-	-	-

9. LOSS PER SHARE

(a) Basic and dilutive loss per share calculated using the weighted average number of fully paid ordinary shares on issue at the reporting date.

Options disclosed in Note 16(b) are potential ordinary shares which are considered anti-dilutive, therefore diluted earnings per share are the same as basic earnings per share.

(b) Weighted average number of shares used in calculation of basic and dilutive earnings per share

30 June 2018
\$

30 June 2017
\$

(0.26) cents (0.28) cents

250,689,415 190,148,769

10. CASH AND CASH EQUIVALENTS

Cash at bank and on hand

30 June 2018
\$

30 June 2017
\$

934,045 838,027

The Group's exposure to interest rate risk and sensitivity analysis for Financial assets and financial liabilities are disclosed in Note 24.

11. TRADE AND OTHER RECEIVABLES

Current

GST receivable

Security deposit

Other receivables

30 June 2018
\$

30 June 2017
\$

33,193 20,658

46,808 46,808

26,750 267,695

106,751 335,161

Trade and other receivables are non-interest bearing.

The Group's exposure to credit and currency risk and impairment losses related to trade and other receivables is disclosed in Note 24.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

	30 June 2018 \$	30 June 2017 \$
12. OTHER FINANCIAL ASSETS		
Current		
Advanced contributions from Farm-in partners (note 21)	454,746	359,954
Non - Current		
Investments in other entities		
Listed shares	60,000	86,250

The Group's exposure to equity price risk and sensitivity analysis is disclosed in Note 24.

	30 June 2018 \$	30 June 2017 \$
13. PLANT AND EQUIPMENT		
Office equipment and fittings at cost	252,906	252,906
Accumulated depreciation	(250,486)	(249,151)
Net book value	2,420	3,755

Reconciliation of office equipment is as follows:

Opening carrying value	3,755	5,964
Additions	-	2,746
Depreciation	(1,335)	(4,955)
Closing carrying value	2,420	3,755

	30 June 2018 \$	30 June 2017 \$
14. EXPLORATION AND EVALUATION EXPENDITURE		
Balance at 1 July	9,377,823	7,055,058
Exploration and evaluation expenditure incurred	2,833,157	2,631,288
Exploration and evaluation assets acquired	9,750	63,750
Exploration and evaluation expenditure impaired	-	(275,699)
Research and development grant received	(106,323)	
Reimbursement of costs on exploration and evaluation	(797,982)	(96,574)
Balance at 30 June	11,316,751	9,377,823

The ultimate recovery 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 than or equal to carrying value. Refer note 3 (n).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

	30 June 2018	30 June 2017
	\$	\$
15. TRADE AND OTHER PAYABLES		
Trade creditors and accruals	273,932	132,142

All trade and other payables are non-interest bearing and payable on normal commercial terms.

The Group's exposure to currency and liquidity risk related to trade and other payables is disclosed in Note 24.

	30 June 2018	30 June 2017	30 June 2018	30 June 2017
	No.	No.	\$	\$
16. ISSUED CAPITAL				
(a) Share capital				
<i>Ordinary shares</i>				
On issue at 1 July	198,309,674	153,434,961	42,655,110	39,800,503
Shares issued for cash at \$0.07 per share	-	32,250,002	-	2,258,658
Conversion of convertible note to ordinary shares	-	11,374,711	-	614,153
Shares issued for acquisition of asset at \$0.051 per share	-	1,250,000	-	63,750
Shares issued for acquisition of asset at \$0.043 per share	250,000	-	10,750	-
Shares issued for cash at \$0.035 per share	68,937,096	-	2,412,798	-
Shares issued in lieu of fees at \$0.035 per share	1,428,571	-	50,000	-
Share issue costs	-	-	(220,915)	(81,954)
On issue at 30 June – fully paid	268,925,341	198,309,674	44,907,743	42,655,110

(a) Share capital (continued)

Terms and conditions

Holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at shareholders' meetings. The company does not have authorised capital or par value in respect of its issued shares.

In the event of winding up of the Company, ordinary shareholders rank after all other shareholders and creditors and are fully entitled to any proceeds of liquidation.

Dividends

No dividends were paid or declared for the year (2017: NIL).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

16. ISSUED CAPITAL (CONTINUED)

	30 June 2018 No.	30 June 2017 No.
(b) Options outstanding over ordinary shares		
Unlisted options exercisable at \$0.10 expiring 30 July 2017	-	8,338,334
Unlisted options exercisable at \$0.10 expiring 6 August 2017	-	500,000
Unlisted options exercisable at \$0.20 expiring 11 September 2017	-	1,000,000
Unlisted options exercisable at \$0.135 expiring 30 November 2017	-	6,000,000
Unlisted options exercisable at \$0.135 expiring 30 November 2017	-	1,100,000
Unlisted options exercisable at \$0.10 expiring 30 November 2017	-	1,000,000
Unlisted options exercisable at \$0.15 expiring 6 February 2018	-	3,811,953
Unlisted options exercisable at \$0.075 expiring 29 June 2019	5,000,000	5,000,000
Unlisted options exercisable at \$0.06 expiring 30 June 2020	12,800,000	12,800,000
Unlisted options exercisable at \$0.07 expiring 31 August 2020	2,412,798	-
Unlisted options exercisable at \$0.07 on or before 30 November 2019	1,500,000	-
	21,712,798	39,550,287

All options were granted for no cash consideration.

No unlisted options were granted to directors during the year (2017: nil).

3,912,798 unlisted options were granted to employees, consultants and contractors during the year (2017: nil)

No unlisted options were exercised during the period.

21,750,287 fully vested unlisted options expired unexercised during the period.

Options carry no voting rights until converted to fully paid ordinary shares.

	30 June 2018 \$	30 June 2017 \$
17. RESERVES		
Share-based payment reserve ⁽¹⁾		
Balance at beginning of period	1,211,377	2,508,368
Options issued to Directors and executives	-	-
Options issued to Employees and contractors	64,329	-
Options issued for professional services	-	-
Adjustment to valuation of options issued due to vesting conditions not met	-	30,000
Fully vested options expired unexercised during the period	(486,821)	(1,326,991)
	788,885	1,211,377
Fair value reserve ⁽²⁾		
Balance at beginning of period	18,750	30,000
Net increase/(decrease) in the market value of listed shares available for sale	(18,750)	(11,250)
	-	18,750
Convertible note reserve ⁽³⁾		
Balance at beginning of period	-	614,153
Conversion to equity	-	(614,153)
	-	-
	788,885	1,230,127

⁽¹⁾ The share-based payment reserve is used to record the fair value of options issued to Directors and employees and consultants under various share-based payment schemes and options issued for the acquisition of assets.

⁽²⁾ The fair value reserve is used to record changes in the fair value of available for sale investments until the investments are derecognised or impaired.

⁽³⁾ The convertible note reserve is used to record the face value of convertible notes issued that are accounted for as equity instruments. On 7 September 2016, the Company issued shares for the conversion of the convertible note and related charges.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

18. COMMITMENTS

a) Operating Lease Commitments

The operating lease over the Company's head office is currently on a month to month basis. There are no other operating leases.

b) Exploration Expenditure Commitments

In order to maintain current rights of tenure to exploration tenements the Company is required to perform minimum 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.

These obligations are not provided for in the financial report and are payable:

	Consolidated		Company	
	30 June 2018	30 June 2017	30 June 2018	30 June 2017
	\$	\$	\$	\$
Minimum exploration expenditure not later than 1 year	2,116,750	2,163,643	-	-

19. SHARE BASED PAYMENTS

Incentive Option Plan

The Hammer Metals Incentive Option Plan was approved by shareholders on 10 June 2016. The key features of this plan are:

- The plan will be available to directors, employees and other permitted persons of the Company and its subsidiaries.
- Options are granted for no consideration.
- The options are issued at an exercise price as determined by the Board from time to time.
- The number of shares the subject of options issued under this plan and other similar plans will not exceed 5% of the Company's issued capital from time to time.
- If a holder ceases to be an eligible participant of the plan during the exercise period of a vested option, the holder may exercise the options within 30 days of ceasing to be an eligible participant and thereafter the options will lapse.
- The options issued under this plan shall not be quoted on ASX.
- The options' terms are at the discretion of the Directors.

No options granted as incentive or for services have lapsed, expired or were exercised during the year.

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	39,550,287	\$0.10
Granted during the period	3,912,798	\$0.07
Expired / lapsed or exercised during the period	(21,750,287)	\$0.12
Outstanding at 30 June	21,712,798	\$0.07
Exercisable at 30 June	21,712,798	

The options outstanding at year end have exercise prices ranging from \$0.06 to \$0.075 a weighted average remaining contractual life of 1.75 years.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

20. RELATED PARTIES

Key Management Personnel Compensation:

The following were key management personnel of the Group at any time during the reporting period and unless otherwise indicated were key management personnel for the entire period:

Executive Directors

Mr R Davis (Chairman)

Mr A Hewlett

Non-executive Directors

Mr N El Sayed

Mr S Bodensteiner

Executives

Mr M Pitts (Company Secretary)

	30 June 2018	30 June 2017
The key management personnel compensation comprised:	\$	\$
Short-term employee benefits	402,000	410,000
Post-employment benefits	5,700	5,700
Share-based payments	1,405	-
	409,105	415,700

Remuneration levels are competitively set to attract and retain appropriately qualified and experienced Directors and executives. Remuneration packages include a mix of fixed remuneration and equity-based remuneration.

Information regarding individual Directors and executive's compensation and some equity instruments disclosures as permitted by Corporations Regulations 2M.3.03 and 2M.6.04 is provided in the remuneration report section of the Directors' report.

Certain key management personnel, or their related parties, hold positions in other entities that result in them having control or significant influence over the financial or operating policies of those entities. One of these entities (as detailed below) transacted with the Group during the reporting period. The terms and conditions of the transaction were no more favourable than those available, or which might be reasonably be expected to be available, on similar transactions to non-key management personnel related entities on an arm's length basis.

The aggregate value of transactions and outstanding balances relating to this entity were as follows:

	Transaction	Transaction value year ended		Balance outstanding as at	
		30 June 2018	30 June 2017	30 June 2018	30 June 2017
		\$	\$	\$	\$
Mark Pitts	Accounting services	23,556	33,261	6,488	3,657

The Company paid fees to Endeavour Corporate, a company associated with Mark Pitts, for accounting and financial reporting services provided to the company.

Equity instruments

All options refer to options over ordinary shares of Hammer Metals Limited, which are exercisable on a one for one basis.

No options were issued to directors in this financial year (2017: Nil)

150,000 options were issued to executives in regard to their employment or provision of services during this financial year (2017: Nil).

No shares were granted to key management personnel during the year as compensation (2016: Nil).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

20. RELATED PARTIES (CONTINUED)

Other related party disclosure

The Company has a related party relationship with its controlled entities.

Transactions between the Company and its controlled entities consisted of:

- (a) Loans advanced by Hammer Metals Limited. The loans are interest free, unsecured and repayable at call. During the financial year ended 30 June 2017, loans to subsidiaries totalled \$9,525,764 (2017: \$8,831,482). These loans have been impaired by \$3,013,273 at 30 June 2018 (2017: \$3,013,273).
- (b) Expenses incurred by Hammer Metals Limited are on-charged to controlled entities at cost.
- (c) Administrative services are provided at no cost to the controlled entities.

21. INTEREST IN OTHER ENTITIES

Name	Country of Incorporation	Percentage held 2018	Percentage held 2017
Parent and ultimate controlling entity			
Hammer Metals Limited			
Subsidiaries			
Hammer Metals Australia Pty Ltd	Australia	100%	100%
Mt. Dockerell Mining Pty Ltd	Australia	100%	100%
Mulga Minerals Pty Ltd	Australia	100%	100%
Element Minerals Australia Pty Ltd	Australia	100%	100%
Hammer Bulk Commodities Pty Ltd ⁽ⁱ⁾	Australia	100%	100%
Midas Metals Asia Pty Ltd ⁽ⁱ⁾	Australia	85%	85%

(i) These subsidiaries are dormant and have not traded during the year.

The investments held in controlled entities are included in the financial statements of the parent at cost.

Joint arrangements

The Group has the following farm-in / farm-out arrangements:

Dronfield

The Group has a farm-in agreement in relation to a tenement held in the Mt. Isa region. The Group has earned an 80% interest in the project. The Group's interest in the above arrangement includes capitalised exploration phase expenditure totalling \$187,376 at 30 June 2018 and is included in exploration and evaluation assets (note 14).

Mt Isa – Newmont

The Group had a farm-out agreement with Newmont Exploration Australia Pty Ltd (Newmont) that commenced in December 2015 in relation to three of the Group's IOCG prospects; Overlander, Even Steven and Dronfield; covering approximately 250km² of the Groups Mt. Isa Project and encompasses sub-blocks of 4 tenements in which the Group has an interest. Newmont could earn up to 75% of the Group's interest in the area by spending US\$10,500,000.

US\$75,000 was reimbursed to the Group on commencement for project consolidation costs.

During the year, Newmont met the criteria to acquire the first 35% interest in the project, but elected to discontinue and withdraw from the arrangement. The joint venture was terminated in June 2018.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

21. INTEREST IN OTHER ENTITIES (CONTINUED)

Joint arrangements (continued)

Mt Frosty – Mt Isa Mines (Glencore)

During the financial year the Group (through its wholly owned subsidiary Mulga Minerals Pty Ltd ('Mulga')) completed the acquisition of a 51% interest in the Mt. Frosty prospect and agreed terms for a new joint venture agreement with Mount Isa Mines Limited ('MIM') (a 100% owned subsidiary of Glenore PLC).

Each party to the joint venture contributes exploration expenditure according to their participating interest (Hammer – 51% and MIM – 49%).

Dilution provisions apply if a party elects not to contribute to a programme. If a party's participating interest falls below 10% their interest will convert to a 3% Net Profits Royalty.

Mulga acts as the initial manager of the joint venture. The Group's interest in the above arrangement includes capitalised exploration phase expenditure totalling \$240,465 at 30 June 2018 and is included in exploration and evaluation assets (note 14).

Millennium Project – Global Energy Metals Corporation (GEMC)

The Millennium cobalt-copper-gold project is currently a joint venture with TSX listed Global Energy Metals Corporation (GEMC). GEMC can earn up to a 75% interest in the five granted mining leases at Millennium by spending CAD2.5 million. GEMC has earned a 25% interest to date. Hammer operates the joint venture.

During the financial year Hammer also negotiated and entered into a binding term sheet for the sale of its 75% interest in the project to GEMC. Consideration for the sale is the issue to Hammer of GEMC ordinary shares whereby Hammer will own a 19.9% interest in TSX-listed GEMC following the acquisition plus board representation.

Under the terms of the Agreement GEMC will purchase the remaining 75% interest in the project along with the cobalt targets at Mt Dorothy and Cobalt Ridge. The sale is contingent on a number of approvals being received and completion of the final sale documentation ("Definitive Agreement").

	30 June 2018 \$	30 June 2017 \$
22. RECONCILIATION OF CASH FLOWS FROM OPERATING ACTIVITIES		
Loss for the year	(654,312)	(528,328)
Adjustments for:		
Depreciation	1,335	4,955
Share based payments	14,054	-
Exploration expenditure written off	-	275,699
Impairment expense	17,000	-
Distribution of exploration development incentive credits	-	(199,612)
Management fee from farm-in partners	(58,053)	(109,940)
Profit on sale of assets	(30,000)	(30,000)
Research & development income tax benefit	(17,359)	-
Add/(less):		
Decrease / (increase) in trade and other receivables	(6,657)	(94,673)
Increase / (decrease) in trade and other payables	141,789	(120,021)
Net cash used in operating activities	(592,203)	(801,920)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

23. SEGMENT INFORMATION

The Group has one reportable segment, being Copper-Gold exploration in the Mount Isa region in Australia.

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.

Accordingly, the financial information presented in the consolidated statement of profit or loss and other comprehensive income and the consolidated statement of financial position is the same as that presented to the chief operating decision maker.

24. FINANCIAL INSTRUMENTS DISCLOSURES

Overview

The Company and Group have exposure to the following risks from their use of financial instruments:

Credit risk

Liquidity risk

Market risk

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.

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.

Trade and other receivables

As the Company operates in the mining exploration sector it does not have significant trade receivables and is therefore not exposed to credit risk in relation to trade receivables. The Group receives advanced cash calls from its farm-in / joint venture partner which are classified as other receivables. The cash call amounts are reduced as and when expenditure in terms of the farm-in/ joint venture agreement is incurred.

The Group has established an allowance for impairment that represents their estimate of incurred losses in respect of other receivables and investments. The main components of this allowance are a specific loss component that relates to individually significant exposures. The management does not expect any other counterparty to fail to meet its obligations. No allowance for impairment has been made.

Presently, the Group undertakes exploration and evaluation activities in Australia. At the balance sheet 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	Note	Carrying amount	
		30 June 2018	30 June 2017
		\$	\$
Cash and cash equivalents	10	934,045	838,027
Trade and other receivables	11	106,751	335,161
Advanced contributions from Farm-in partners	12	454,746	359,954

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

24. FINANCIAL INSTRUMENTS DISCLOSURES (CONTINUED)

Impairment losses

None of the Group's trade and other receivables are past due and impaired (2017: Nil).

Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due (refer Note 2(f)). 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.

Typically, the Group ensures it has sufficient cash on demand to meet expected operational expenses for a period of 90 days, this excludes the potential impact of extreme circumstances that cannot reasonably be predicted, such as natural disasters.

All financial liabilities are due and payable on terms of no more than 30 days. All financial liabilities are generally settled within stated payment terms.

Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices will affect the Group's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return.

Currency risk

The Group has no exposure to currency risk on investments and transactions that are denominated in a currency other than the respective functional currencies of Group entities.

The Group has not entered into any derivative financial instruments to hedge such transactions and anticipated future receipts or payments that are denominated in a foreign currency.

Interest rate risk

The Group is not exposed to interest rate risk on borrowings as it has no borrowings subject to variable interest. The Group is exposed to interest rate risk on its cash balances.

Profile

At the reporting date the interest rate profile of the Company's and the Group's interest-bearing financial instruments was:

	Carrying amount	
	30 June 2018	30 June 2017
	\$	\$
Fixed rate instruments		
Cash and cash equivalents	20,972	20,480
Weighted average interest rates	2.40%	2.18%
Variable rate instruments		
Cash and cash equivalents	913,073	817,547
Weighted average interest rates	0.26%	0.66%

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

24. FINANCIAL INSTRUMENTS DISCLOSURES (CONTINUED)

Fair value sensitivity analysis for fixed rate instruments

The Group does not account for any fixed rate financial assets and liabilities at fair value through profit or loss. Therefore, a change in interest rates at the reporting date would not affect profit or loss or equity (2016: Nil)

Cash flow sensitivity analysis for variable rate instruments

A sensitivity of 50 basis points has been used and considered reasonable given current interest rates. A 0.5% movement in interest rates at the reporting date would have increased equity and profit or loss by the amounts shown below. This analysis assumes that all other variables remain constant. The analysis for 2016 was performed on the same basis.

Consolidated	Loss		Equity	
	50bp increase	50bp decrease	50bp increase	50bp decrease
30 June 2018				
Variable rate instruments	4,565	(4,565)	4,565	(4,565)
30 June 2017				
Variable rate instruments	4,087	(4,087)	4,087	(4,087)

Carrying amounts versus fair values

The fair values of financial assets and liabilities are as per the carrying amounts shown in the statement of financial position.

	30 June 2018	30 June 2017
	\$	\$
Financial assets carried at fair value		
Equity securities – listed on ASX at quoted prices	60,000	83,250
Financial assets carried at amortised costs		
Cash and cash equivalents	934,045	838,027
Trade and other receivables	106,751	335,161
Advanced contributions from Farm-in partners	454,746	359,954
Financial liabilities carried at amortised costs		
Trade and other payables	(273,932)	(132,142)
Advanced cash call	(448,007)	(359,954)

Other Market Price Risk

Other Equity price risk is the risk that the value of the instrument will fluctuate as a result of changes in market prices (other than those arising from interest rate risk or currency risk), whether caused by factors specific to an individual investment, its issuer or all factors affecting all instruments traded in the market.

Investments are managed on an individual basis and material buy and sell decisions are approved by the Board of Directors. The primary goal of the Group's investment strategy is to maximise investment returns.

Commodity Price Risk

The Group operates primarily in the exploration and evaluation phase and accordingly the Group's financial assets and liabilities are subject to minimal commodity price risk at this stage.

Capital Management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern, so as to maintain a strong capital base sufficient to maintain future exploration and development of its projects. In order to maintain or adjust the capital structure, the Group may return capital to shareholders, issue new shares or sell assets to reduce debt. The Group's focus has been to raise sufficient funds through equity to fund exploration and evaluation activities.

There were no changes in the Group's approach to capital management during the year. Risk management policies and procedures are established with regular monitoring and reporting.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

25. PARENT ENTITY DISCLOSURES

	Company	
Financial Position	30 June 2018	30 June 2017
	\$	\$
Assets		
Current assets	6,874,306	7,865,208
Non-current assets	5,511,161	3,135,762
Total assets	12,385,467	11,000,970
Liabilities		
Current liabilities	232,693	492,096
Total liabilities	232,693	492,096
Net Assets	12,152,774	10,508,874
Equity		
Issued capital	44,907,743	42,655,110
Accumulated losses	(33,543,854)	(33,376,363)
Reserves	788,885	1,230,127
Total equity	12,152,774	10,508,874
Financial Performance		
Loss for the year	(654,312)	(1,126,517)
Other comprehensive income	-	(11,250)
Total Comprehensive income	(654,312)	(1,137,767)

Contingent liabilities of the parent entity

There are no contingent liabilities at 30 June 2018 (2017: None)

Commitments of the parent entity

For details on commitments, see note 19.

26. EVENTS SUBSEQUENT TO BALANCE DATE

Subsequent to the year end, the Company raised \$806,776 (before costs) through a non-renounceable rights issue of 161,355,200 options. The offer was completed on the basis of 3 options for every 5 shares held, and the options were issued for 0.5 cents per option. The options issued under the offer are exercisable at 3 cents per share on or before 30 September 2020. The Company also raised an additional \$200,000 through the issue of 6,666,667 shares at \$0.03 per share and 4,000,000 free attaching options exercisable at 3 cents per share on or before 30 September 2020.

Other than the above, there has not been any other 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.

DIRECTORS' DECLARATION

1. In the opinion of the Directors of Hammer Metals Limited ("the Company"):
 - (a) the consolidated financial statements and notes and the remuneration report in the Directors' report, are in accordance with the Corporations Act 2001, including:
 - i. *giving a true and fair view of the Group's financial position as at 30 June 2018 and of its performance for the financial year ended on that date; and*
 - ii. *complying with Australian Accounting Standards and the Corporations Regulations 2001;*
 - (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.
2. The Directors have been given the declarations by the managing director and company secretary for the financial year ended 30 June 2018 pursuant to Section 295A of the Corporation Act 2001.
3. The Directors draw attention to Note 2(a) to the consolidated financial statements, which includes a statement of compliance with International Financial Reporting Standards.

Signed in accordance with a resolution of the Directors:



R Davis
Executive Chairman

Perth

Dated 28 September 2018



Independent Auditor's Report

To the shareholders of Hammer Metals Limited

Report on the audit of the Financial Report

Opinion

We have audited the **Financial Report** of Hammer Metals Limited (the Company).

In our opinion, the accompanying Financial Report of the Company is in accordance with the *Corporations Act 2001*, including:

- giving a true and fair view of the **Group's** financial position as at 30 June 2018 and of its financial performance for the year ended on that date; and
- complying with *Australian Accounting Standards* and the *Corporations Regulations 2001*.

The **Financial Report** comprises:

- Consolidated statement of financial position as at 30 June 2018
- Consolidated statement of profit or loss and other comprehensive income, Consolidated statement of changes in equity, and Consolidated statement of cash flows for the year then ended
- Notes including a summary of significant accounting policies
- Directors' Declaration.

The **Group** consists of the Company and the entities it controlled at the year-end or from time to time during the financial year.

Basis for opinion

We conducted our audit in accordance with *Australian Auditing Standards*. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the Financial Report* section of our report.

We are independent of the Group in accordance with the *Corporations Act 2001* and the ethical requirements of the *Accounting Professional and Ethical Standards Board's APES 110 Code of Ethics for Professional Accountants* (the Code) that are relevant to our audit of the Financial Report in Australia. We have fulfilled our other ethical responsibilities in accordance with the Code.

Material uncertainty related to going concern

We draw attention to Note 2(f), "Going Concern" in the financial report. The conditions disclosed in Note 2(f) indicate a material uncertainty exists that may cast significant doubt on the Group's ability to continue as a going concern and, therefore, whether it will realise its assets and discharge its liabilities in the normal course of business, and at the amounts stated in the financial report. Our opinion is not modified in respect of this matter.



In concluding there is a material uncertainty related to going concern we evaluated the extent of uncertainty regarding events or conditions casting significant doubt in the Group's assessment of going concern. Our approach to this involved:

- Evaluating the feasibility, quantum and timing of the Group's plans to raise additional shareholder funds to address going concern;
- Assessing the Group's cash flow forecasts for incorporation of the Group's operations and plans to address going concern, in particular in light of the history of loss making operations; and
- Determining the completeness of the Group's going concern disclosures for the principle matters casting significant doubt on the Group's ability to continue as a going concern, the Group's plans to address these matters, and the material uncertainty.

Key Audit Matters

Key Audit Matters are those matters that, in our professional judgement, were of most significance in our audit of the Financial Report of the current year.

These matters were addressed in the context of our audit of the Financial Report as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

In addition to the matter described in the *Material uncertainty related to going concern* section, we have determined the matter described below to be the Key Audit Matter.

Capitalised exploration and evaluation ("E&E") assets (\$11,316,751)

Refer to Note 14 to the Financial Report

The key audit matter	How the matter was addressed in our audit
Exploration and evaluation expenditure capitalised (E&E) is a key audit matter due to: • The significance of the activity to the Group's business and the balance (being 88% of total assets); and • The greater level of audit effort to evaluate the Group's application of the requirements of the industry specific accounting standard <i>AASB 6 Exploration for and Evaluation of Mineral Resources</i>, in particular the conditions allowing capitalisation of relevant expenditure and presence of impairment indicators. The presence of impairment indicators would necessitate a detailed analysis by the Group of the value of E&E, therefore given the criticality of this to the scope and depth of our work, we involved senior team members to challenge the Group's determination that no such indicators existed.	Our audit procedures included: • Evaluating the Group's accounting policy to recognise exploration and evaluation assets using the criteria in the accounting standard; • We assessed the Group's determination of its areas of interest for consistency with the definition in the accounting standard. This involved analysing the licenses in which the Group holds an interest and the exploration programmes planned for those for consistency with documentation such as joint venture agreements and planned work programmes; • For each area of interest, we assessed the Group's current rights to tenure by corroborating the ownership of the relevant license to government registries and evaluating agreements in place with other parties. We also tested for compliance with conditions, such as minimum expenditure requirements, on a sample of licenses;

In assessing the presence of impairment indicators, we focused on those that may draw into question the commercial continuation of E&E activities for the Mt Isa, Mt Frost and Millennium areas where significant capitalised E&E exists. In addition to the assessments above, and given volatile base metal prices/financial position of the Group we paid particular attention to: • Documentation available regarding rights to tenure, via licensing, and compliance with relevant conditions, to maintain current rights to an area of interest and the Group's intention and capacity to continue the relevant E&E activities; • The ability of the Group to fund the continuation of activities; and • Results from latest activities regarding the existence or otherwise of economically recoverable reserves/commercially viable quantity of reserves.	• We tested the Group's additions to E&E for the year by evaluating a statistical sample of recorded expenditure for consistency to underlying records, the capitalisation requirements of the Group's accounting policy and the requirements of the accounting standard; • We evaluated Group documents, such as minutes of Board meetings, for consistency with their stated intentions for continuing E&E in certain areas. We corroborated this through interviews with key operational and finance personnel. • We analysed the Group's determination of recoupment through successful development and exploitation of the area by evaluating the Group's documentation of planned future/continuing activities including work programmes and project and corporate budgets.
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Other Information

Other Information is financial and non-financial information in Hammer Metals Limited's annual reporting which is provided in addition to the Financial Report and the Auditor's Report. The Directors are responsible for the Other Information.

The Other Information we obtained prior to the date of this Auditor's Report was the Director's Report. The Chairman's Letter, Operations Report and ASX Additional Information are expected to be made available to us after the date of the Auditor's Report.

Our opinion on the Financial Report does not cover the Other Information and, accordingly, we do not express an audit opinion or any form of assurance conclusion thereon, with the exception of the Remuneration Report and our related assurance opinion.

In connection with our audit of the Financial Report, our responsibility is to read the Other Information. In doing so, we consider whether the Other Information is materially inconsistent with the Financial Report or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

We are required to report if we conclude that there is a material misstatement of this Other Information, and based on the work we have performed on the Other Information that we obtained prior to the date of this Auditor's Report we have nothing to report.

Responsibilities of the Directors for the Financial Report

The Directors are responsible for:

- preparing the Financial Report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001*
- implementing necessary internal control to enable the preparation of a Financial Report that gives a true and fair view and is free from material misstatement, whether due to fraud or error



- assessing the Group's ability to continue as a going concern and whether the use of the going concern basis of accounting is appropriate. This includes disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless they either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the Financial Report

Our objective is:

- to obtain reasonable assurance about whether the Financial Report as a whole is free from material misstatement, whether due to fraud or error; and
- to issue an Auditor's Report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with *Australian Auditing Standards* will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error. They are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of this Financial Report.

A further description of our responsibilities for the audit of the Financial Report is located at the *Auditing and Assurance Standards Board* website at: http://www.auasb.gov.au/auditors_responsibilities/ar1.pdf. This description forms part of our Auditor's Report.

Report on the Remuneration Report

Opinion

In our opinion, the Remuneration Report of Hammer Metals Limited for the year ended 30 June 2018, complies with *Section 300A* of the *Corporations Act 2001*.

Directors' responsibilities

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 responsibilities

We have audited the Remuneration Report included in section 12 of the Directors' report for the year ended 30 June 2018.

Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with *Australian Auditing Standards*.

KPMG

R Gambitta
Partner

Perth

28 September 2018