



KING ISLAND  
**SCHEELITE**

ABN 40 004 681 734

---

ANNUAL REPORT





## CORPORATE DIRECTORY

### **Registered Office**

Level 9, 1 York Street  
Sydney NSW 2000

Telephone 612 9250 0111  
Facsimile 612 9241 6953

[www.kingislandscheelite.com.au](http://www.kingislandscheelite.com.au)

### **DIRECTORS**

Ray Soper - Non Executive Chairman  
Anthony Haggarty  
Robin Morritt  
Andrew Plummer

### **COMPANY SECRETARY**

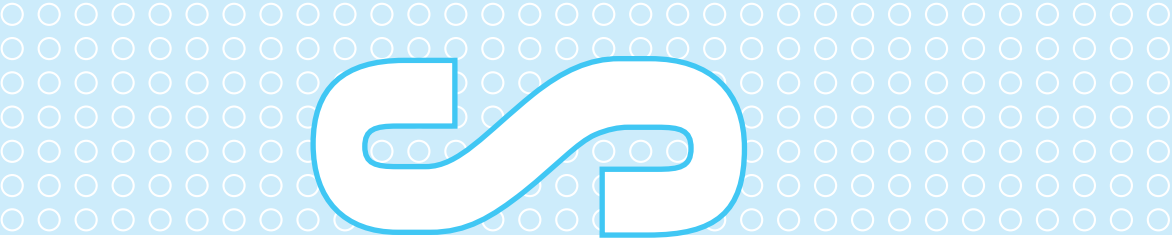
Ian Morgan

### **SHARE REGISTRAR**

Computershare Investor Services Pty Ltd  
Level 2  
45 St Georges Terrace  
Perth WA 6000

### **AUDITORS**

KPMG  
10 Shelley Street  
Sydney NSW 2000



# S

# T

CHAIRMAN'S LETTER 2

# E

DIRECTORS' REPORT 4

# R

INCOME STATEMENTS 17

# N

STATEMENTS OF CHANGES IN EQUITY 18

# E

BALANCE SHEETS 19

# T

STATEMENTS OF CASH FLOWS 20

# R

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS 21

# N

DIRECTORS' DECLARATION 52

# I

LEAD AUDITOR'S INDEPENDENCE DECLARATION 53

# O

INDEPENDENT AUDIT REPORT 54

# R

SHAREHOLDER INFORMATION 56

# G

# Chairman's Letter

29 September 2006

The past year has been a period of intense activity for our company.

Acquisition of the King Island Scheelite mine re-development project was completed in May 2005, and since then we have advanced the project to completion of the Feasibility Study which we expect to be delivered at the end of September 2006.

Shareholders approved the change of name from GTN Resources Ltd to King Island Scheelite Ltd at a general meeting held in October 2005. The Feasibility Study has been funded by a share placement and Share Purchase Plan that raised \$5 million in December 2005.

The King Island Scheelite mine operated from 1917 up until 1990 when adverse market conditions caused the mine to be closed. A substantial resource remained at the time of closure, and the re-development plan being advanced by KIS is designed to recover the bulk of this resource in a cost-effective fashion.

Our confirmation drilling program has seen 39 additional core holes drilled in addition to the 593 holes recorded in the historic database. Information from these holes was digitised and a 3D model was developed. In April 2005, AMC Consultants provided the company with a Resource estimate that showed a resource of 13.4 million tonnes grading 0.64% WO<sub>3</sub> could be recoverable from an open pit mine developed to a depth of 308 metres

The King Island Scheelite mining plan involves developing an open pit mine to recover material plunging to the south-east. The project requires measures to prevent ingress of sea-water into the open pit. This has been done by extending the area reclaimed by the old miners seawards using overburden to be removed from the open pit mine. Water ingress is limited by construction of an impermeable cement "curtain" near the ultimate pit lip.

Some of the overburden to be removed from the pit can be used to build a new breakwater and port. The current port, developed using overburden from the old open pit mine, is too small to handle ships more than 4000 tonnes displacement, imposing un-necessarily high shipping costs on the residents of the island. The new port will relax this constraint, and potentially significantly reduce many of the costs involved in living on the island.

Details of the mine development plan will be included in a summary of the Feasibility Study to be released in early October 2006. However, the current plan is to build a concentrator to treat 600,000 tonnes per year, which would give a mine life in excess of 15 years.

As shareholders will be aware, there has been some slippage in our timetables. This is mainly a result of the current intense demand for various engineering and metallurgical services in Australia.

The tungsten market has remained very strong during the past year. In part this has been driven by strong demand in China, accompanied by measures to limit excess output. The quoted price for 65% WO<sub>3</sub> concentrates is now US\$222 per mtu (metric tonne unit – one hundredth of a tonne or 10kg) compared with the range of US\$40-US\$80 per mtu that persisted from the early 1980s until early 2005.

While there are numerous emergent tungsten projects, our project is well advanced compared with most, potentially producing concentrates towards the end of 2007. This has led to considerable interest on the part of tungsten concentrate processors, with KIS receiving several approaches.

As announced on 8 September, 2006, KIS has entered into a non-binding Letter of Intent with leading Chinese tungsten company Xiamen Tungsten Ltd. The LOI is a first step in establishing an unincorporated 50/50 Joint Venture to develop the King Island project. The plan envisages that KIS will contribute rights to exploit the resources on the tenements while Xiamen Tungsten will contribute the capital required to develop the project.

Xiamen Tungsten is the world's largest tungsten processor, and highly regarded for its commercial and technical expertise. It is a major supplier to Western tungsten consumers.

The KIS Board believes the Joint Venture with XTC provides the best balance of risk/return for our shareholders. We look forward to developing our constructive relationship with XTC, and bringing the project to fruition.

# Chairman's Letter

continued

In closing, I would like to acknowledge the significant contributions of my fellow board members and our management team. We are particularly fortunate to have been able to access people with deep experience in areas relevant to our project. A great deal has been achieved in a very short time, and I am hopeful that shareholders will benefit from the development of a successful project.

A handwritten signature in black ink, appearing to read 'R Soper', with a horizontal line underneath the name.

Ray Soper  
Chairman

# Directors' Report



## Directors

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

**Raymond Soper** **Non-Executive Chairman, BSc (Otago), MBA (NSW)** (appointed 18 June 1992), has 40 years experience in mining operations, mineral economics, investment management, strategic management, consulting and merchant banking. Ray is also presently a Director of three other public listed companies: PlatSearch NL (appointed 16 March 1987); Huntley Investment Company Ltd (appointed 26 October 1993); and Paradigm Gold Ltd (appointed 18 November 2002).

During the 3 years to 30 June 2006, Ray was a Director of three public listed companies: Buka Minerals Ltd (ASX) (for the period 29 March 1996 to 26 February 2004); Continental Minerals Corporation (formerly Misty Mountain Gold Limited) (TSE) (for the period 31 December 1993 to 3 May 2005); and Klondike Source Limited (NSX) (for the period 15 May 1999 to 31 May 2006)

**Robin FC Morritt** **Non-Executive Director, BA Hons (Macquarie NSW Australia), MS (Stanford CA USA), PhD (Queen's Ontario Canada), FAusIMM, CP Geo, FAIG, FSEG** (appointed 24th May 2005), an exploration geologist with over 30 years experience.

Robin worked with the former Western Mining Corporation Ltd in Australia, the USA and Brazil and with Pacific-Nevada Mining Pty Ltd (then a wholly owned subsidiary of Franco-Nevada Mining Ltd) in Australia. Robin was a founding director (including managing director and chairman) of ASX-listed ReLODE Limited (subsequently renamed Integra Mining Limited) for the period January 2001 to March 2004. Robin was also a founding director of Australian Tungsten Pty Ltd (ATPL) which secured the King Island scheelite asset. ATPL was later vended into ASX-listed GTN Resources Ltd which was subsequently renamed King Island Scheelite Ltd.

**Anthony Haggarty** **Non-Executive Director, MComm (NSW)**, (appointed 7 April 1998), has over 25 years experience in the development, management and financing of mining projects. He has worked for BP Coal and BP Finance in Sydney and London and for Agipcoal as the Managing Director of its Australian subsidiary. He is also a director of the publicly listed company Excel Coal Limited (appointed 11 November 2002), Australian Coal Association Research Program Ltd and Port Kembla Coal Terminal Pty Ltd.

**Andrew Plummer** **Non-Executive Director BS Mining Eng Colorado School of Mines**, (appointed 1 March 2006) has over 30 years industry experience ranging from mining finance/investments to mining engineering and operations. He is currently an executive director of the publicly listed company Excel Coal Ltd (appointed 8 July 1987), where he is responsible for the group's business development activities. From 1972 to 1985, he worked for major mining companies including ARCO Coal, Utah International and Consolidation Coal. Over the past twenty years, he has been involved in the mining finance industry in Australia where he has worked for Eureka Capital Partners, Resource Finance Corporation and Westpac Banking Corporation.

## Company Secretary

Mr Nigel Jones, *BBus CA*, was appointed to the position of Company Secretary on 10 March 2000 and resigned on 1 May 2006. Mr Jones is also the company secretary for listed company Excel Coal Limited.

Mr Ian Morgan *BBus, CA, ACIS, MAICD, FFin*, was appointed Company Secretary on 4 August 2005. Mr Morgan is an experienced Chartered Company Secretary and Chartered Accountant, with over 25 years experience in corporate administration. Mr. Morgan consults extensively to Oakhill Hamilton Pty Ltd, a company that provides secretarial and corporate advisory services to a range of listed and unlisted companies; and is company secretary of other publicly listed companies.

# Directors' Report

continued

## Directors' meetings

The number of directors' meetings (including meetings of committees of directors) and the number of meetings attended by each of the directors of the Company during the financial year are:

	Board Meetings		Audit Committee Meetings	
	A	B	A	B
Raymond Soper (Board Chairman)	9	11	2	2
Anthony Haggarty	9	11	–	2
Robin Morrirt (Audit Committee Chairman)	11	11	2	2
Andrew Plummer	2	4	–	1

**A** Number of meetings attended

**B** Number of meetings held during the time the director held office during the year

## Principal activities

The principal activity of the King Island Scheelite Group during the year was the exploration and evaluation of tungsten resources on King Island, Tasmania.

There were no significant changes in the nature of the activities of the King Island Scheelite Group during the financial year.

## Operating and financial review

### Review of business

#### Highlights

- Initial geological work complete.
- Mineral Resource 13.4mt @ 0.64% WO<sub>3</sub>.
- Metallurgical processing test program progressing.
- Government approvals on track.
- Feasibility Study to be complete by end September 2006.
- Exploration & evaluation expenditure \$3,218,000 for year ended 30 June 2006.

## Geology and Exploration

Geological work relating to the re-development of the King Island Scheelite mine is complete.

The next phase of geological work will involve an exploration assessment of opportunities to locate additional scheelite resources. On-going exploration will include the following:

- Better understanding the tungsten mineralisation around the planned pit;
- Extending the geological and mineralogical understanding down-plunge and east-southeast towards the Teredo tungsten target;
- A first-pass re-evaluation of the geology and mineralisation around the former Bold Head underground mine, and
- Re-evaluation of several tungsten prospects located on the western flanks of the Grassy intrusion.

This work is to include the acquisition of high resolution airborne magnetics across both onshore and offshore KIS tenements to assist in the definition of geological features such as rock types, contacts and faults. An extensive data base including drill holes into known mineralisation away from the Dolphin and Bold Head mineralisation will be incorporated into this next phase of work.

# Directors' Report

continued

## Mineral Resource Estimate

On 13 April 2006, KIS announced to the ASX a Mineral Resource estimate for the Dolphin Resource prepared by AMC Consultants (AMC).

The AMC Mineral Resource estimate identifies the resource potentially recoverable by planned open pit mining comprising remnants from the previous underground operation and other mineralised zones not previously mined.

The drill-hole database used for the resource assessment included information from 593 pre-KIS drill-holes and a further 39 core holes drilled by the KIS since May 2005. This information was used to check and confirm key information such as mineralisation boundaries, presence of stopes and pillars, and to recover metallurgical test samples. The core logs and assays for these drill-holes have been digitised and included in a 3D model of the deposit.

An additional 13 drill-holes were drilled for geotechnical and groundwater assessment purposes.

AMC worked closely with KIS's geological consultant Newnham Exploration and Mining Services (NEMS) to check, and to the extent possible with the pre-KIS data, verify all of the drill-hole and assay information. AMC then developed a 3D block model of the deposit.

AMC reported a Mineral Resource at a cut-off grade of 0.25% WO<sub>3</sub> down to an RL of 308m below sea level of:

### Mineral Resource

Indicated:	13.2 million tonnes @ 0.64% WO <sub>3</sub>
Inferred:	0.2 million tonnes @ 0.35% WO <sub>3</sub>
<b>Total:</b>	<b>13.4 million tonnes @ 0.64% WO<sub>3</sub></b>

These estimates have been classified and reported in accordance with the 2004 JORC Code.

While the Mineral Resources have been classified predominantly as Indicated Resources, it is likely that a significant proportion would have been classified as Measured Resources had it not been for uncertainty with respect to the precise location of underground workings and therefore of remnant mineralisation, and incomplete records relating to some of the old drilling data.

These resource numbers do not include the following:

- Mineralised material down-plunge in the main Dolphin deposit below an RL of minus 308m. The presence of well-mineralised material is known in this area from past drilling and mining activities. However, it is not considered that this material can be recovered by open pit mining.
- Mineralised material at the old Bold Head mine some 3km north of the King Island Scheelite mine. Geopeko records from 1990 indicate that there are approximately 1.7 to 1.9 million tonnes of material grading approximately 0.8% to 0.9% WO<sub>3</sub> remaining at Bold Head.<sup>1</sup>

## Mine planning

Optimisation of the mine-plan continues. This work has been greatly facilitated by the availability of the detailed 3D model developed by AMC Consultants. The project is sensitive to the head grade of ore delivered to the mill and selective mining of the higher grade ore is being evaluated. Under this scenario, lower grade ore would be stockpiled for treatment once higher grade ore supply has been exhausted. Scheelite ores are oxide ores and do not deteriorate if exposed to atmosphere.

A detailed mine production schedule has been completed based on a production and treatment rate of 600,000 tonnes of ore per year. It is designed to minimise upfront capital expenditure in the first years of the project.

The mine production schedule and pit plans have been provided to mining contractors for pricing of the mining project. In addition, the Company has also commissioned specialist mining consultants to separately estimate mining costs in the light of revised mining production rates and given the generally increased mining costs across Australia.

Not all of the material contained in the Mineral Resource estimate will necessarily be recoverable from the planned open pit mine. Further work is required to finalise capital and operating costs, mill recoveries, final pit slopes and other key

<sup>1</sup> Reported as a range in accordance with Clause 18 of the 2004 JORC Code. Based on Geopeko internal mineral resource estimates.

# Directors' Report

continued

parameters before an Ore Reserve can be estimated.

Finalisation of the Ore Reserves is dependent on completion of the Feasibility Study.

## Sea Wall

Development of the planned open pit mine is dependent on extending the reclaimed area of Grassy Bay and construction of a sea wall to protect that reclamation. Engineers GHD have been assisting with the design of the sea wall, reclamation area, and impermeable cut-off wall to prevent water ingress to the pit. Provision has been made for these costs in the capital cost estimate.

The development of the open pit mine offers a major community benefit to the people of King Island and the Bass Strait region generally. The adjacent Grassy Port was constructed using over-burden from the original King Island open pit mine. The new pit will allow construction of a new port with capacity to take larger ships that can significantly reduce the cost of shipping to and from the island.

Sequencing of the pre-strip and sea-wall construction is being included in the mining schedule.

## Metallurgical Processing

The re-development project has the great advantage that the King Island Scheelite mine has a long history of successfully treating scheelite bearing materials from the Dolphin and Bold Head mines. The Company gave consideration to replicating the old mill circuit. However, the Company's metallurgical consultants advised that to do so would result in a considerably higher capital and operating expenditure than can be achieved using modern processing technology that has been developed in the period since the old King Island Scheelite mill was designed and constructed.

It was accordingly decided to explore the development of an optimal milling circuit using modern processing technology. While all of the equipment being evaluated has a successful record in minerals processing applications, it has been necessary to undertake a detailed test program to demonstrate that the equipment can deliver design performance on the scheelite bearing materials likely to be produced from the new mine.

Test programs require meaningful tonnages of sample to demonstrate performance. The Company also needs to produce sufficient quantities of representative concentrate samples required by potential off-takers.

As previously reported, the metallurgical test program has taken considerably longer than anticipated. There are three main reasons for this.

- a) Logistical challenges in recovering large bulk samples and transporting these to testing facilities.
- b) Difficulty gaining access to testing facilities. The current resource sector boom is placing extraordinary demands on testing and assay companies, and the Company has encountered some difficulties in accessing these facilities.
- c) During the course of evaluation work new approaches have been identified that require additional evaluation work. An example is Koppern High Pressure Grinding Rolls which offer potential to achieve better liberation of scheelite particles at significantly lower cost and less slimes generation than the more traditional technologies.

A final flowsheet has now been settled, and testwork now being undertaken is of a confirmatory nature. The current program will also produce the concentrate test samples required for marketing purposes.

## Infrastructure / Design / Procurement

Design of crushing and screening plant has progressed sufficiently to allow refinement of capital and operating cost estimates.

A draft report on the tailings dam has been received and final dam designs are being completed. A final report is expected shortly.

The geotechnical investigation draft report for the proposed plant area has been received.

Bin and chute designs were revised following receipt of a report detailing the material handling characteristics of scheelite ore.

# Directors' Report

continued

## Infrastructure / Design / Procurement (cont.)

A report has been received in relation to power generation.

A revised capital cost estimate based upon 75 tonnes per hour wet processing capability has been completed.

Forecast cost estimates have been calculated for the construction program.

## Environment, Approvals and Community

The assessment of the KIS Development Proposal and Environmental Management Plan (DPEMP) by the King Island Council, State and Federal authorities continues. During May 2006, a supplement to the DPEMP (DPEMP supplement) was submitted to the Department of Primary Industries, Water and the Environment (DPIWE) and King Island Council.

The DPEMP supplement responded to a number of submissions received from King Island Council, State and Commonwealth agencies, and other interested parties.

## Marketing

Minerals marketing consultants Clark & Marron has been retained to prepare a report on the worldwide tungsten industry for inclusion in the Feasibility Study.

Discussions are continuing with potential off-takers. In the course of these discussions, opportunities to reduce costs across the supply chain from tungsten ore to APT (ammonium paratungstate – the most widely traded intermediate material in the tungsten industry) have been identified. While these opportunities require further test work confirmation, they appear to offer significant potential to improve metallurgical performance, reduce operating and capital costs, and to reduce project risk. Potential off-takers are actively assisting in these test work programs, and samples have been despatched to facilitate this work.

The Company considers that it is very much in shareholders' interests to pursue these avenues, even though they could impose further delays on completion of the Feasibility Study.

Scheelite ore concentrate prices, as quoted on Metal Pages, rose 16% during June to US\$203 per mtu. The average price for the last 12 months was US\$200 per mtu, with a maximum of US\$267 and minimum of US\$132 per mtu. One mtu is equivalent to 10kg.

## Feasibility Study

Current planning suggests that completion of the FFS will now occur by the end of September 2006.

The King Island Scheelite re-development project is being affected by the nation-wide demand for mining services in Australia at the moment, and also by the high cost of diesel fuel which impacts on the costs of operating the mining fleet and generating power on the island.

## Financing

The Company is engaged in discussions with parties interested in assisting with the financing of the project. Finalisation of financing arrangements necessarily requires the completion of the FFS, the granting of necessary permits, and finalisation of off-taker arrangements.

## Dividends

There were no Dividends paid or declared by the Company to members during or since the end of the financial year.

# Directors' Report

continued

## Events subsequent to balance date

There has not arisen in the interval between the end of the financial year and the date of this report any item, transaction or event of a material and unusual nature likely, in the opinion of the directors of the Company, to affect significantly the operations of the consolidated entity, the results of those operations, or the state of affairs of the consolidated entity, in future financial years; except for the following:

The Company entered into a non-binding Letter of Intent (LOI) with Xiamen Tungsten Co. Ltd (XTC) in September 2006, to establish a Joint Venture to re-develop the King Island Scheelite mine;

XTC is a world leading tungsten processing and manufacturing company based in Xiamen, Fujian Province, China;

The non-binding LOI provides for the Company and XTC to establish an unincorporated Joint Venture to develop the King Island Scheelite mine re-development project as a 600,000 tonnes per annum open cut mine and treatment plant;

The LOI envisages that XTC will contribute 100% of the capital (including development and working capital) required to build the plant and to develop the project, and the Company will contribute its rights to exploit the resources on the tenements held by the Company. As a result, each party will hold a 50% participating Joint Venture interest in the project and contribute 50% each to monthly cash calls to cover operating costs;

Each party will take their 50% interest in project output in kind. The Company will be free to sell its share of project output for a market price;

XTC will provide technical support services to the project under a technical services agreement;

A Joint Venture Committee will be established to manage the project. The Joint Venture Committee will engage a Project Manager to manage the detailed design, construction and commissioning phases, and a Mine Operator to manage subsequent operations; and

As announced in the Quarterly Report to 30 June 2006, KIS is targeting completion of the Feasibility Study by September 2006. On completion, KIS will deliver a copy of the Feasibility Study to XTC and will then advance to a legally binding Heads of Agreement, followed by a formal Joint Venture Agreement.

## Likely developments

The consolidated entity will continue to evaluate the resources and reserves on the King Island tenements with a view to committing to construction of the mine in 2006.

Further information on likely developments in the operations of the consolidated entity and the expected results of operations has not been included in this report because the directors believe disclosure of such information would be likely to result in unreasonable prejudice to the consolidated entity.

## Directors' interests

The relevant beneficial interest of each director in the shares issued by the companies within the consolidated entity and other related bodies corporate, and notified by the directors to the ASX in accordance with S250G(1) of the Corporations Act 2001 at the date of this report are:

<b>King Island Scheelite Limited</b>	<b>Ordinary fully paid shares</b>	<b>First Tranche Closing Performance Shares</b>	<b>Second Tranche Closing Performance Shares</b>	<b>First Tranche options</b>	<b>Second Tranche options</b>
Raymond Soper	162,512	–	–	196,875	253,125
Anthony Haggarty	3,642,889	–	–	–	–
Robin Morritt	5,555,000	4,000,000	4,000,000	–	–
Andrew Plummer	794,146	–	–	–	–

Further details of options issued to Mr. Soper are included in the Remuneration Report commencing page 11.

# Directors' Report

continued

## Environmental regulation

The consolidated entity's past operations in NSW/Qld are subject to the Mining Act (1992) and the Environmental Protection Act (1999). The performance of the consolidated entity in relation to the regulations imposed was as follows -

(a) Sapphire operations

Rehabilitation was completed to the land owners' satisfaction on several past exploration licences and the process to obtain approval by the Department of Mineral Resources for guarantee release is underway.

(b) Base Metal Operations

The Company has finalised the rectification required with the EPA and local council. Directors believe that the cost of such work should not exceed \$230,000.

(c) King Island

The Board believes that the consolidated entity has adequate systems in place for the management of its environmental requirements.

Based on results of enquiries made, the directors are not aware of any significant breaches during the period covered by this report.

## Indemnification and insurance of officers and auditors

During the financial year, the Company arranged insurance to indemnify each director and officer holding office during the year against any liabilities for costs and expenses incurred by them, including legal expenses, as a result of any third party proceedings arising from their conduct as directors and officers of the Company, other than dishonest or criminal intent, improper gain, or insider trading in relation to the Company. The Company paid a premium of \$28,199 (2005 \$27,867), exclusive of GST, for this insurance cover.

## Non-audit services

During the year KPMG, the Company's auditor, has performed certain other services in addition to their statutory duties.

With respect to the non-audit services provided during the year by the auditor, the Board has considered written advice provided and by resolution of the Audit Committee. The Board is satisfied that the provision of those non-audit services during the year by the auditor is compatible with, and did not compromise, the auditor independence requirements of the Corporations Act 2001 for the following reasons:

- all non-audit services were subject to the corporate governance procedures adopted by the Company and have been reviewed by the Audit and Corporate Governance Committee to ensure they do not impact the integrity and objectivity of the auditor; and
- the non-audit services provided do not undermine the general principles relating to auditor independence as set out in Professional Statement F1 Professional independence, as they did not involve reviewing or auditing the auditors own work, acting in a management or decision making capacity for the Company, acting as an advocate for the Company or jointly sharing risks and rewards.

Details of the amounts paid to the auditor of the Company, KPMG, and its related practices for audit and non-audit services provided during the year are set out below. In addition, amounts paid to other auditors for the statutory audit have been disclosed:

# Directors' Report

continued

	Consolidated	
	2006	2005
	\$	\$
<b>Audit Services</b>		
<b>Auditors of the Company</b>		
<i>KPMG Australia</i>		
Audit and review of financial reports	38,000	33,250
Other regulatory services – AIFRS review	14,600	–
	<b>52,600</b>	<b>33,250</b>

## Remuneration Report

The Company has 4 non-executive directors and does not have a remuneration policy in place.

### Contract terms and conditions

All directors are paid for the time incurred in attending board meetings. Non executive directors do not receive performance based remuneration. No bonuses were paid in respect of the current or previous financial years.

No director remuneration package includes terms for redundancy, retirement or termination benefits. No such amounts were accrued or paid for any director during the current financial year.

Each director's terms of employment are set out as follows:

#### *Mr Soper (Non-Executive Chairman)*

Mr Soper, or an entity controlled by Mr. Soper, is paid at the rate of \$30,987 p.a. plus 9% statutory superannuation to be a non-executive Director and Chairman. No annual or long service leave accrues to Mr Soper. Any further work on behalf of the Company is paid on a time incurred basis. Details of this remuneration are set out below.

196,875 First and 253,125 Second Tranche Options were approved to be issued to Mr. Soper at a general meeting of shareholders held on 24 May 2005; issued on 4 July 2005; and may only be exercised after the achievement of financial close. Further details of options issued to Mr. Soper are set out below.

#### *Mr Haggarty (Non-Executive)*

Mr Haggarty, or an entity controlled by Mr. Haggarty, is paid at the rate of \$26,400 p.a. plus 9% statutory superannuation to be a non-executive Director. Any further work on behalf of the Company is paid on a time incurred basis. No annual or long service leave accrues to Mr Haggarty. Details of this remuneration are set out below.

#### *Mr Plummer (Non-Executive)*

Mr Plummer, or an entity controlled by Mr. Plummer, is paid at the rate of \$26,400 p.a. plus 9% statutory superannuation to be a non-executive Director. Any further work on behalf of the Company is paid on a time incurred basis. No annual or long service leave accrues to Mr Plummer. Details of this remuneration are set out below.

#### *Dr Morrirt (Non-Executive)*

Dr Morrirt is paid at the rate of \$26,400 p.a. plus 9% statutory superannuation to be a non-executive Director. Any further work on behalf of the Company is paid on a time incurred basis. No annual or long service leave accrues to Dr Morrirt. Details of this remuneration are set out below.

# Directors' Report

continued

## Remuneration Report (cont.)

### Options issued to Directors

The following factors and assumptions were used in determining the fair value of all options on grant date:

Grant Date	Expiry Date	Fair value per option cents	Exercise Price cents	Price of Shares on Grant Date cents	Expected Volatility %	Risk free interest rate %	Market risk of no financial close %	Dividend Yield %
4 July 2005	3 July 2010	17	0.001	70	20.0	5.2	10.0	–

All options refer to options over ordinary shares of King Island Scheelite Limited, which are exercisable on a one-for-one basis.

Details of options over ordinary shares in the Company that were granted to Directors, and each of the named Company executives and relevant group executives who receive the highest remuneration, as compensation during the reporting period and details of options that were vested during the reporting period are as follows:

Directors	Number of options granted during 2006	Grant Dates	Number of options vested during 2006	Fair Value of Option at Grant Date cents	Exercise Price per Option cents	Expiry Date
Mr. Ray Soper	450,000	4 July 2005	450,000	17	0.001	3 July 2010
Mr. Kerry Heywood	450,000	4 July 2005	450,000	17	0.001	3 July 2010

During the reporting period, no shares were issued on the exercise of options previously granted as compensation.

Details of the vesting profile of the options granted as remuneration to each Director of the Company, and each of the named Company executives and relevant group executives who receive the highest remuneration, is detailed below:

Directors	Options granted		Vested in year %	Forfeited in year %	Financial year in which grant vested	Value yet to vest \$
	Number	Date				
Mr. Ray Soper	450,000	4 July 2005	100	–	30 June 2006	–
Mr. Kerry Heywood	450,000	4 July 2005	100	–	30 June 2006	–

The movement during the reporting period, by value, of options over ordinary shares in the Company held by each Company director and each of the named Company executives and relevant group executives who receive the highest remuneration is detailed below:

Directors	Granted in year \$	Value of options		Total option value in year \$
		Exercised in year \$	Forfeited in year \$	
Mr. Ray Soper	76,500	–	–	76,500
Mr. Kerry Heywood	76,500	–	–	76,500

# Directors' Report

continued

## Remuneration Report (cont.)

Details of the nature and amount of each major element of remuneration of each director of the Company and each of the named Company executives and relevant group executives who receive the highest remuneration are:

		Short-term			Total	Post-employment Super benefits	Other long term	Termination benefits	Share-based payments	Total	Proportion of remuneration performance related	Value of options as proportion of remuneration
		Salary & fees	Cash bonus	Non-monetary benefits							%	%
		\$	\$	\$	\$	\$	\$	\$	\$	\$	%	%
Directors												
R Soper <sup>2</sup>	<b>2006</b>	<b>122,679</b>	–	–	<b>122,679</b>	<b>2,789</b>	–	–	<b>76,500</b>	<b>201,968</b>	<b>38%</b>	<b>38%</b>
	2005	19,412	–	–	19,412	1,747	–	–	–	21,159	–	–
A Haggarty <sup>3</sup>	<b>2006</b>	<b>26,400</b>	–	–	<b>26,400</b>	<b>2,376</b>	–	–	–	<b>28,776</b>	–	–
	2005	–	–	–	–	–	–	–	–	–	–	–
R Morritt	<b>2006</b>	<b>26,400</b>	–	–	<b>26,400</b>	<b>2,376</b>	–	–	–	<b>28,776</b>	–	–
	2005	2,200	–	–	2,200	198	–	–	–	2,398	–	–
A Plummer (appointed 1 March 2006)	<b>2006</b>	<b>8,800</b>	–	–	<b>8,800</b>	<b>792</b>	–	–	–	<b>9,592</b>	–	–
	2005	–	–	–	–	–	–	–	–	–	–	–
K Heywood <sup>4</sup> (CEO resigned 30 June 2005)	<b>2006</b>	–	–	–	–	–	–	–	<b>76,500</b>	<b>76,500</b>	<b>100%</b>	<b>100%</b>
	2005	45,750	–	–	45,750	–	–	–	–	45,750	–	–
<b>Total compensation (Consolidated Entity and Company)</b>	<b>2006</b>	<b>184,279</b>	–	–	<b>184,279</b>	<b>8,333</b>	–	–	<b>153,000</b>	<b>345,612</b>	<b>44%</b>	<b>44%</b>
	2005	67,362	–	–	67,362	1,945	–	–	–	69,307	–	–

The Company does not employ any executive persons who are responsible for the strategic direction and operational management of the consolidated entity. Non-executive directors have taken certain operational responsibilities on a temporary basis.

<sup>2</sup> Salary & fees include \$91,692 (2005 \$Nil) consulting fees paid or payable for the year ended 30 June 2006 by the Company to an entity controlled by Mr. Soper for the provision of consulting services.

<sup>3</sup> For the year ended 30 June 2006, the Company paid \$5,281 (2005 \$10,000) to a company associated with Mr. Haggarty for office sub-rental, sundry supplies and the provision of company secretarial services by Mr. Jones. Mr. Jones received no personal remuneration in respect of this role during the financial year ended 30 June 2005.

<sup>4</sup> Salary & fees include \$Nil (2005 \$45,750) consulting fees paid or payable for the year ended 30 June 2006 by the Company to an entity controlled by Mr. Heywood for the provision of consulting services.

# Directors' Report

continued

## Corporate Governance

The Board has formally reviewed the ASX Corporate Governance Council paper entitled "Principles of Good Corporate Governance and Best Practice Recommendations" which was published in March 2003. The Company is a small company with limited operations. Accordingly the directors consider that many of the corporate governance guidelines intended to apply to larger companies are not practical for the Company.

The Company's position on those recommendations is set out below;

### **Principle 1: Lay solid foundations for management and oversight**

#### Role of the Board

The Board's primary role is the protection and enhancement of long term shareholder value. To fulfil this role the Board is responsible for the overall Corporate Governance of the consolidated entity including its strategic direction, establishing goals for management and monitoring achievement of those goals.

The Company's board is comprised of 4 directors:

- Raymond Soper                Non-executive Chairman
- Anthony Haggarty            Non-executive director
- Andrew Plummer             Non executive director
- Robin Morrirt                Non-executive director

The Company has not adopted a formal Board Charter due to the size of the Company, significantly reduced operating activity and the Board is responsible for the day to day management of the Company.

Apart from the statements on responsibility the Company has not formalised the functions reserved to the Board and those delegated to management for the reasons noted above.

### **Principle 2: Structure the board to add value**

The composition of this Board is determined using the following principles:

- The Chairman should be a non-executive director.
- The Board should comprise a majority of non-executive directors.
- Directors appointed by the Board are subject to election by shareholders at the following annual general meeting and thereafter directors are subject to re-election at least every three years.

The Company does not comply with the majority of the recommendations within this area. The main areas of divergence with recommended principles are:

- The Chairman is not independent of the executive management of the consolidated entity.
- The Company has a formally constituted Audit Committee but does not have a Board Nominations or Remuneration Committee. Due to the Company's size and limited operations the Board no longer uses the Corporate Governance Committee.
- The majority of Directors should be independent.

While Mr Soper is not a substantial shareholder, he is not considered independent because he has provided consulting services to the Company and has been a non-executive director of the Company since 1992, a period of time, which in the words of the ASX document, "could be perceived to materially interfere" with his "ability to act in the best interest of the Company".

Mr Haggarty is a non-executive director but is not independent. His company, MEM Consultants Pty Ltd, has undertaken "material" consultancy work for the Company within the past three years. This consultancy has now ceased and was undertaken on normal commercial terms. All payments are disclosed within the financial statements. In addition Mr Haggarty holds more than 5% of the share capital of the Company through a family company, The Glen Rural Pty Ltd.

Dr Morrirt is a non-executive director but is not independent. A related party of Dr Morrirt holds more than 5% of the share capital of the Company.

# Directors' Report

continued

Mr Plummer is a non-executive director and shareholder with less than 5% of the share capital of the Company. Mr. Plummer is considered to be independent.

Each Director of the Company has the rights to seek independent professional advice at the expense of the Company.

## **Principle 3: Promote ethical and responsible decisions-making**

The Company does not have a formal code of conduct reflecting the Company's small size and the close interaction of the small number of individuals throughout the organisation. However the directors, officers, consultants and employees of the Company are aware of their legal responsibilities and adhere to the following policy.

Directors, officers, consultants and employees of the Company shall, at all times, not breach the insider trading requirements of the Corporations Act 2001 and not deal in the Company's securities:

- Except between three (3) and thirty (30) days after either the release of the Company's half-year and annual results to the Australian Stock Exchange, the annual general meeting or any major announcement; or
- Whilst in possession of price sensitive information.

In accordance with the Corporations Act 2001 and the Listing Rules of the Australian Stock Exchange, directors must advise the Company and the Australian Stock Exchange of any interests held by that director, or his related entity, in securities or contracts of the Company.

## **Principle 4: Safeguard integrity in financial reporting**

The Project Manager and personnel responsible for producing the financial results have stated in writing to the Board that the Company's consolidation year end financial reports present a true and fair view, in all material respects, and are in accordance with relevant accounting standards.

The Company has an Audit Committee. The committee consists of the 4 directors who also sit on the main board. As noted above three directors do not meet the ASX's guidance regarding independence (see note under Principle 2).

The Company's auditor, KPMG was appointed in 2001. The current engagement partner was appointed in 2005.

## **Principle 5: Make timely and balanced disclosures**

The Company and its directors are aware of continuous disclosure requirements under the Listing Rules and Corporations Act 2001 and operate in an environment where strong emphasis is placed on full and appropriate disclosure. The Company does not have formal written policies regarding disclosure, but uses strong informal systems underpinned by experienced individuals.

## **Principle 6: Respects the rights of shareholders**

The Company does not have a communications strategy to promote effective communication with shareholders, as it believes this is excessive for small companies. The Company maintains a website and uses timely announcements to the ASX to ensure shareholders are kept fully informed.

The Company also aims to ensure that the shareholders are informed of all major developments through:

- Despatch of the annual and half yearly financial reports.
- Despatch of all notices of meetings of shareholders.
- Submitting to a vote of shareholders proposed major changes in the consolidated entity which may impact on share ownership rights.

The Board encourages full participation of shareholders at the annual general meeting to ensure high level of accountability and identification of the consolidated entity's strategic goals. Important issues are presented to the shareholders as single resolutions.

As required by the Corporations Act 2001, the external auditor attends the Company's annual general meetings.

# Directors' Report

continued

## Corporate Governance (cont.)

### **Principle 7: Recognise and manage risk**

The Company is a small company with limited operations and does not believe that there is significant need for formal policies on risk oversights and management. However, the board considers risk exposure and management as a standing agenda item at board meetings.

Risk management arrangements are the responsibility of the Board of Directors.

### **Principle 8: Encourage enhanced performance**

The Company does not have a Remuneration Committee. Neither the Company nor consolidated entity employs staff.

There has been no formal performance evaluation of the board during the past financial year.

The Directors have full access to all the Company's files and records.

### **Principle 9: Remunerate fairly and responsibly**

There are no formal remuneration policies maintained by the Company.

In accordance with Corporations Act 2001 requirements, the Company discloses the fees or salaries paid to all Directors, and executive officers of the Company.

The Company does not maintain a share option plan.

### **Principle 10: Recognise the legitimate interests of stakeholders**

The Company does not have a formal Code of Conduct to guide compliance with legal and other obligations. This reflects the Company's size and lack of operational activity which makes its legal compliance a less onerous task than with larger companies.

The Board of Directors continues to review the situation to determine the most appropriate and effective operational procedures.

### **Lead auditor's independence declaration**

The lead auditor's independence declaration made under Section 307C of the Corporations Act 2001 is set out on page 53 and forms part of this Directors' Report.

### **Rounding off**

The Company is of a kind referred to in ASIC Class Order 98/100 dated 10 July 1998 and in accordance with that Class Order, amounts in the financial report and the Directors' Report have been rounded off to the nearest thousand dollars, unless otherwise stated.

Signed in accordance with a resolution of the Board of directors.



RJ Soper  
Director  
Sydney  
29 September 2006

# Income Statements

for the year ended 30 June 2006

	Note	Consolidated		The Company	
		2006 \$000	2005 \$000	2006 \$000	2005 \$000
Revenue	3	-	-	2	280
Cost of sales		-	-	-	-
<b>Gross profit</b>		-	-	2	280
Employee expenses	5	(202)	-	(202)	-
Administrative expenses		(537)	(212)	(402)	(363)
Other expenses		(230)	-	(274)	-
Other operating income	4	-	3	-	-
Financial income – interest		161	111	160	100
<b>Profit/(Loss) before tax</b>		<b>(808)</b>	(98)	<b>(716)</b>	17
<b>Income tax expense</b>	7	-	-	-	-
<b>Net profit/(loss) after tax but before profit /(loss) from discontinued operations</b>		<b>(808)</b>	(98)	<b>(716)</b>	17
Profit/(Loss) of discontinued operations and gain on sale of discontinued operations, net of tax		-	(177)	-	654
<b>Net profit/(loss) attributable to members of the parent</b>		<b>(808)</b>	(275)	<b>(716)</b>	671
		<b>2006 cents</b>	2005 cents		
Basic and diluted (loss)/earnings per share attributable to ordinary equity holders.					
–continued operations	9	(2.4)	(0.5)		
–discontinued operations	9	-	(0.8)		
		<b>(2.4)</b>	<b>(1.3)</b>		

The income statements are to be read in conjunction with the notes to the consolidated financial statements set out on pages 21 to 51.

# Statements of Changes in Equity

for the year ended 30 June 2006

	<b>Issued Capital \$000</b>	<b>Accumulated losses \$000</b>	<b>Share Option reserve \$000</b>	<b>Total equity \$000</b>
<b>Consolidated</b>				
Opening balance at 1 July 2004	13,122	(10,105)	–	3,017
Share issue	6,820	–	–	6,820
Net loss for the year	–	(275)	–	(275)
Closing balance at 30 June 2005	19,942	(10,380)	–	9,562
Share issue	5,078	–	–	5,078
Share based payments	–	–	170	170
Net loss for the year	–	(808)	–	(808)
Closing balance at 30 June 2006	25,020	(11,188)	170	14,002
<b>The Company</b>				
Opening balance at 1 July 2004	13,122	(11,143)	–	1,979
Share issue	6,820	–	–	6,820
Net profit for the year	–	671	–	671
Closing balance at 30 June 2005	19,942	(10,472)	–	9,470
Share issue	5,078	–	–	5,078
Share based payments	–	–	170	170
Net loss for the year	–	(716)	–	(716)
Closing balance at 30 June 2006	25,020	(11,188)	170	14,002

Amounts are stated net of tax

The statements of changes in equity should be read in conjunction with the notes to the consolidated financial statements set out on pages 21 to 51.

# Balance Sheets

as at 30 June 2006

	Note	Consolidated		The Company	
		2006 \$000	2005 \$000	2006 \$000	2005 \$000
<b>Current assets</b>					
Cash and cash equivalents	10	3,323	2,264	3,299	2,217
Trade and other receivables	11	61	304	61	301
Inventories	12	28	28	28	–
<b>Total current assets</b>		<b>3,412</b>	<b>2,596</b>	<b>3,388</b>	<b>2,518</b>
<b>Non-current assets</b>					
Trade and other receivables	11	39	24	195	239
Investments accounted for using the equity method	13	100	100	–	–
Other financial assets	16	–	–	7,043	7,043
Property, plant and equipment	17	705	4	705	–
Intangible assets	18	12,616	9,398	3,411	193
Other		1	1	1	1
<b>Total non-current assets</b>		<b>13,461</b>	<b>9,527</b>	<b>11,355</b>	<b>7,476</b>
<b>Total assets</b>		<b>16,873</b>	<b>12,123</b>	<b>14,743</b>	<b>9,994</b>
<b>Current liabilities</b>					
Trade and other payables	19	436	356	436	352
Provisions	20	277	47	230	–
<b>Total current liabilities</b>		<b>713</b>	<b>403</b>	<b>666</b>	<b>352</b>
<b>Non-current liabilities</b>					
Deferred tax liabilities	15	2,158	2,158	75	75
Loan to controlled entities	19	–	–	–	97
<b>Total non-current liabilities</b>		<b>2,158</b>	<b>2,158</b>	<b>75</b>	<b>172</b>
<b>Total liabilities</b>		<b>2,871</b>	<b>2,561</b>	<b>741</b>	<b>524</b>
<b>Net assets</b>		<b>14,002</b>	<b>9,562</b>	<b>14,002</b>	<b>9,470</b>
<b>Equity</b>					
Issued capital	21	25,020	19,942	25,020	19,942
Reserves	21	170	–	170	–
Accumulated losses		(11,188)	(10,380)	(11,188)	(10,472)
<b>Total equity</b>		<b>14,002</b>	<b>9,562</b>	<b>14,002</b>	<b>9,470</b>

The balance sheets should be read in conjunction with the notes to the consolidated financial statements set out on pages 21 to 51.

# Statements of Cash Flows

for the year ended 30 June 2006

	Note	Consolidated		The Company	
		2006 \$000	2005 \$000	2006 \$000	2005 \$000
<b>Cash flows from operating activities</b>					
Cash receipts from customers		-	612	-	46
Cash paid to suppliers and employees		(583)	(550)	(570)	(207)
Cash (used in)/generated from operations		(583)	62	(570)	(161)
Management fees received		-	-	-	280
Interest received		161	106	160	92
<b>Net cash (used in)/generated from operating activities</b>	27	<b>(422)</b>	168	<b>(410)</b>	211
<b>Cash flows from investing activities</b>					
Proceeds from sale of property, plant and equipment		4	3	-	-
Payment for property, plant & equipment		(705)	-	(705)	-
Payments for investments in controlled entities	25	-	(123)	-	(123)
Payments for security deposits		(15)	(150)	-	(150)
Proceeds from sale of controlled entities	26	90	140	90	140
Exploration and evaluation expenditure		(2,971)	(193)	(2,971)	(193)
<b>Net cash used in investing activities</b>		<b>(3,597)</b>	(323)	<b>(3,586)</b>	(326)
<b>Cash flows from financing activities</b>					
Proceeds from the issue of share capital		5,280	-	5,280	-
Capital raising costs		(202)	-	(202)	-
Loans from controlled entities		-	-	-	298
<b>Net cash generated from financing activities</b>		<b>5,078</b>	-	<b>5,078</b>	298
Net increase/(decrease) in cash and cash equivalents					
		1,059	(155)	1,082	183
Cash and cash equivalents at 1 July		2,264	2,419	2,217	2,034
<b>Cash and cash equivalents at 30 June</b>	10	<b>3,323</b>	2,264	<b>3,299</b>	2,217

The statements of cash flows should be read in conjunction with the notes to the consolidated financial statements set out on pages 21 to 51.

# Notes to the consolidated financial statements

## 1 Significant accounting policies

King Island Scheelite Limited (the "Company") is a company domiciled in Australia. The consolidated financial report of the Company for the year ended 30 June 2006 comprise the Company and its subsidiaries (together referred to as the "consolidated entity" or "Group") and the consolidated entity's interest in associates.

The consolidated financial report was authorised for issue by the directors on 29 September 2006.

### (a) Statement of compliance

The financial report is a general purpose financial report which has been prepared in accordance with Australian Accounting Standards adopted by the Australian Accounting Standards Board ("AASB") and the Corporations Act 2001. International Financial Reporting Standards ("IFRS") form the basis of Australian Accounting Standards ("AASB") adopted by the AASB, and for the purpose of this report are called Australian equivalents to IFRS ("AIFRS") to distinguish from previous Australian GAAP.

This is the consolidated entity's first financial report prepared in accordance with Australian Accounting Standards, being AIFRS, and AASB 1 First-Time Adoption of Australian Equivalents to International Financial Reporting Standards has been applied. An explanation of how the transition to AIFRS has affected the reported financial position, financial performance and cash flows of the consolidated entity and the Company is provided in note 32.

### (b) Basis of preparation

**The financial report is presented in Australian dollars.**

The financial report is prepared on the historical cost basis.

The Company is of a kind referred to in ASIC Class Order 98/100 dated 10 July 1998 and in accordance with that Class Order, amounts in the financial report and Directors' Report have been rounded off to the nearest thousand dollars, unless otherwise stated.

Non-current assets held for sale are stated at the lower of carrying amount and fair value less costs to sell.

The entity has elected early adoption of the following accounting standards:

- AASB 119 Employee Benefits (December 2004);
- AASB 2004-3 Amendments to Australian Accounting Standards (December 2004) amending AASB 1 First Time Adoption of Australian Equivalents to International Financial Reporting Standards (July 2004), AASB 101 Presentation of Financial Statements, AASB 124 Related Party Disclosures;
- AASB 2005-1 Amendments to Australian Accounting Standards (May 2005) amending AASB 139 Financial Instruments: Recognition and Measurement;
- AASB 2005-3 Amendments to Australian Accounting Standards (June 2005) amending AASB 119 Employee Benefits (either July or December 2004);
- AASB 2005-4 Amendments to Australian Accounting Standards (June 2005) amending AASB 139 Financial Instruments : Recognition and Measurement, AASB 132 Financial Instruments: Disclosure and Presentation, AASB 1 First Time Adoption of Australian Equivalents to International Financial Reporting Standards (July 2004);
- AASB 2005-5 Amendments to Australia Accounting Standards (June 2005) amending AASB 1 First Time Adoption of Australian Equivalents to International Financial Reporting Standards (July 2004) and AASB 139 Financial Instruments: Recognition and Measurement;
- AASB 2005-8 Amendments to Australian Accounting Standards (June 2005) amending AASB 1 First Time Adoption of Australian Equivalents to International Financial reporting Standards (July 2004) ; and
- AASB 2005-11 Amendments to Australian Accounting Standards (September 2005) amending AASB 101 Presentation of Financial Statements, AASB 112 Income Taxes, AASB 132 Financial Instruments: Disclosure and Presentation, AASB 133 Earnings per Share, AASB 139 Financial Instruments: Recognition and Measurement, and AASB 141 Agriculture; and

# Notes to the Consolidated Financial Statements

continued

## (b) Basis of preparation (continued)

The following standards and amendments were available for early adoption but have not been applied by the consolidated entity in these financial statements:

- AASB 7 *Financial instruments: Disclosure* (August 2005) replacing the presentation requirements of financial instruments in AASB 132. AASB 7 is applicable for annual reporting periods beginning on or after 1 January 2007;
- AASB 2005-9 Amendments to Australian Accounting Standards (September 2005) amending AASB 4 Insurance Contracts, AASB 0123 General Insurance Contracts, AASB 132 Financial Instruments. Disclosures and Presentation and AASB 139 Financial Instruments: Recognition and Measurement; and
- AASB 2005-10 *Amendments to Australian Accounting Standards* (September 2005) makes consequential amendments to AASB 132 *Financial Instruments: Disclosures and Presentation*, AASB 101 *Presentation of Financial Statements*, AASB 114 *Segment Reporting*, AASB 117 *Leases*, AASB 133 *Earnings per Share*, AASB 139 *Financial Instruments: Recognition and Measurement*, AASB 1 *First-time Adoption of Australian Equivalents to International Financial Reporting Standards*, AASB 4 *Insurance Contracts*, AASB 1023 *General Insurance Contracts* and AASB 1038 *Life Insurance Contracts*, arising from the release of AASB 7. AASB 2005-10 is applicable for annual reporting periods beginning on or after 1 January 2007.

The consolidated entity plans to adopt these standards in the 2007 financial year. The initial application of these standards is not expected to have an impact on the financial results of the Company and the consolidated entity.

The preparation of a financial report in conformity with Australian Accounting Standards requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstance, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates. These accounting policies have been consistently applied by each entity in the consolidated entity.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised, if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

The accounting policies set out below have been applied consistently to all periods presented in the consolidated financial report and in preparing an opening AIFRS balance sheet at 1 July 2004 for the purposes of the Australian Accounting Standards – AIFRS.

The accounting policies have been applied consistently by all entities in the consolidated entity.

## (c) Basis of consolidation

### Subsidiaries

Subsidiaries are entities controlled by the Company. Control exists when the Company has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that presently are exercisable or convertible are taken into account. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

Investments in subsidiaries are carried at their cost of acquisition in the Company's financial statements.

### Associates

Associates are those entities for which the consolidated entity has significant influence, but not control, over the financial and operating policies. The financial report includes the consolidated entity's share of the total recognised gains and losses of associates on an equity accounted basis, from the date that significant influence commences until the date that significant influence ceases. When the consolidated entity's share of losses exceeds its interest in an associate, the consolidated entity's carrying amount is reduced to nil and recognition of further losses is discontinued except to the extent that the consolidated entity has incurred legal or constructive obligations or made payments on behalf of an associate.

In the Company's financial statements, investments in associates are carried at fair value.

# Notes to the Consolidated Financial Statements

continued

## **Joint ventures**

Joint ventures are those entities over whose activities the consolidated entity has joint control, established by contractual agreement.

## **Jointly controlled entities**

In the consolidated financial statements, investments in jointly controlled entities are accounted for using equity accounting principles. Investments in joint venture entities are carried at the lower of the equity accounted amount and recoverable amount.

The consolidated entity's share of the jointly controlled entity's net profit or loss is recognised in the consolidated statement of financial performance from the date joint control commenced until the date joint control ceases. Other movements in reserves are recognised directly in the consolidated reserves.

In the Company's financial statements, investments in joint venture entities are carried at cost.

## **Jointly controlled operations and assets**

The interest of the consolidated entity in unincorporated joint ventures and jointly controlled assets are brought to account by recognising in its financial statements the assets it controls and the liabilities that it incurs, and the expenses it incurs and its share of income that it earns from the sale of goods or services by the joint venture.

## **Transactions eliminated on consolidation**

Intra-group balances and any unrealised gains and losses or income and expenses arising from intra-group transactions are eliminated in preparing the financial report.

Unrealised gains arising from transactions with associates and jointly controlled entities are eliminated to the extent of the consolidated entity's interest in the entity, with adjustments made to the "Investment in associates" and "Share of associates' net profit" accounts.

Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

Gains and losses are recognised as the relevant assets are consumed or sold by the associate or jointly controlled entities or, if not consumed or sold by the associate or jointly controlled entity, when the consolidated entity's interest in such entities is disposed of.

## **(d) Property, plant and equipment**

### **Owned assets**

Items of property, plant and equipment are stated at cost less accumulated depreciation (see below) and impairment losses (see accounting policy 1(j)).

Where parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items of property, plant and equipment.

### **Subsequent costs**

The consolidated entity recognises in the carrying amount of an item of property, plant and equipment the cost of replacing part of such an item when that cost is incurred if it is probable that the future economic benefits embodied within the item will flow to the consolidated entity and the cost of the item can be measured reliably. All other costs are recognised in the income statement as an expense as incurred.

# Notes to the Consolidated Financial Statements

continued

## (d) Property, plant and equipment (continued)

### Depreciation

Depreciation is charged to the income statement on a straight line basis over the estimated useful lives of each part of an item of property, plant and equipment. Land is not depreciated. The estimated useful lives in the current period are as follows:

	2006
• plant and equipment	2.5 to 4 years

The residual value, if not insignificant, is reassessed annually.

## (e) Intangible assets

### Mining Rights

Mining rights are stated at cost. Mining rights are amortised on a units of production basis over the life of the economically recoverable reserves, once production commences. As production has not yet commenced, the carrying value is assessed annually for impairment.

### Exploration and evaluation expenditure

Pre-licence costs are recognised in the income statement as incurred.

Exploration and evaluation assets are only recognised if the rights of the area of interest are current and either:

- i the expenditures are expected to be recouped through successful development and exploitation of the area of interest; or
- ii activities in the area of interest have not at the reporting date, reached a stage which permits a reasonable assessment of the existence or other wise of economically recoverable reserves and active and significant operations in, or in relation to, the area of interest are continuing.

Exploration and evaluation expenditure, including the costs of acquiring licences, are capitalised as exploration and evaluation assets pending determination of the technical feasibility and commercial viability of the project. The capitalised costs are presented as intangible exploration and evaluation assets. When a licence is relinquished or a project abandoned, the related costs are recognised in profit or loss.

Exploration and evaluation assets that have reached the development and production phase are categorised as property, plant and equipment and are depreciated (amortised) on a units of production basis over the life of the economically recoverable reserve.

## (f) Investments

### Investments in debt and equity securities

#### *Subsidiaries*

Investments in subsidiaries are carried in the Company's financial statements at the lower of cost and recoverable amount.

## (g) Trade and other receivables

Trade and other receivables are stated at amortised cost less impairment losses (see accounting policy 1(j)).

## (h) Cash and cash equivalents

Cash and cash equivalents comprise cash balances and call deposits with an original maturity of three months or less.

# Notes to the Consolidated Financial Statements

continued

## (i) Inventories

Inventories are measured at the lower of cost and net realisable value.

The cost of mining inventories is determined using a weighted average basis. Cost includes direct material, overburden removal, mining, processing, labour, related transportation costs to the point of sale, mine rehabilitation costs incurred in the extraction process and other fixed and variable overhead costs directly related to mining activities.

Net realisable value (NRV) is determined on the basis of the Consolidated Entity's normal selling pattern. Expenses of marketing, selling and distribution to customers are estimated and deducted to establish NRV.

## (j) Impairment

The carrying amounts of the consolidated entity's assets other than, inventories (see accounting policy 1(i)), and deferred tax assets (see accounting policy 1(p)), are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated (see below).

For intangible assets that are not yet available for use, the recoverable amount is estimated annually.

An impairment loss is recognised whenever the carrying amount of an asset exceeds its recoverable amount. Impairment losses are recognised in the income statement unless the asset has been re-valued previously in which case the impairment loss is recognised as a reversal to the extent of the previous revaluation with any excess recognised through the income statement.

Impairment losses recognised in respect of cash generating units are allocated first to reduce the carrying amount of any goodwill allocated to the cash generating unit (group of units) and then, to reduce the carrying amount of the other assets in the unit (group of units) on a pro rata basis.

### Calculation of recoverable amount

The recoverable amount of other assets is the greater of their fair value less costs to sell and value in use. 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 an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash generating unit to which the asset belongs.

### Reversals of impairment

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.

## (k) Earnings per share

Basic earnings per share (EPS) is calculated by dividing the net profit attributable to members of the parent entity for the reporting period, after excluding any costs of servicing equity (other than ordinary shares and converting preference shares classified as ordinary shares for EPS calculation purposes), by the weighted average number of ordinary shares of the Company, adjusted for any bonus issue.

Diluted EPS is calculated by dividing the basic EPS earnings, adjusted by the tax effect of financial costs associated with dilutive ordinary shares and the effect on revenues and expenses of conversion to ordinary shares associated with dilutive potential ordinary shares, by the weighted average number of ordinary and dilutive potential ordinary shares adjusted for any bonus issue.

# Notes to the Consolidated Financial Statements

continued

## (l) Employee benefits

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

Liabilities for employee benefits for wages and salaries represent present obligations resulting from employees' services provided to the reporting date, calculated at undiscounted amounts based on remuneration wage and salary rates that the consolidated entity expects to pay as at reporting date.

### Share-based payment transactions

At a general meeting on 24 May 2005, the Company agreed to issue options to nominated Directors and Executives for the considerable effort, enterprise and commitment in identifying, securing and progressing expeditiously the King Island Project. These options were issued on 4 July 2005 and may be exercised upon the achievement of the arrangements to provide funding sufficient to develop the King Island Project, which may include but, are not limited to, equity funding, senior project debt, corporate debt, mezzanine debt, lease funding, project efficacy insurance, overrun insurance and equity reserves ("Financial Close").

The fair value of these options granted is recognised as an employee expense with the corresponding increase in equity. The fair value is measured at grant date when the employees become unconditionally entitled to the options. The fair value of the options granted is measured using a binomial lattice 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 adjusted for the market risk of not achieving Financial Close.

## (m) Provisions

A provision is recognised in the balance sheet when the consolidated entity 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.

### Site Restoration

In accordance with the consolidated entity's environmental policy and applicable legal requirements, a provision for site restoration in respect of contaminated land is recognised when the land is contaminated.

The provision is the best estimate of the present value of the expenditure required to settle the restoration obligation at the reporting date, based on current legal requirements and technology. Future restoration costs are reviewed annually and any changes are reflected in the present value of the restoration provision at the end of the reporting period.

The amount of the provision for future restoration costs is capitalised and is depreciated in accordance with the policy set out in note 1(d). The unwinding of the effect of discounting on the provision is recognised as a finance cost.

### Mine rehabilitation

Provisions are made for the estimated cost of rehabilitation relating to areas disturbed during the mine's operation up to reporting date but not yet rehabilitated. Provision has been made in full for all disturbed areas at the reporting date based on current estimates of costs to rehabilitate such areas, discounted to their present value based on expected future cashflows. The estimated cost of rehabilitation includes the current cost of recontouring, topsoiling and revegetation employing legislative requirements. Changes in estimates are dealt with on a prospective basis as they arise.

Significant uncertainty exists as to the amount of rehabilitation obligations which will be incurred due to the impact of changes in environmental legislation. The amount of the provision relating to rehabilitation of mine infrastructure and dismantling obligations is recognised at the commencement of the mining project and/or construction of the assets where a legal or constructive obligation exists at that time. The provision is recognised as a non-current liability with a corresponding asset included in mining property and development assets.

At each reporting date the rehabilitation liability is re-measured in line with changes in discount rates, and timing or amount of the costs to be incurred. Changes in the liability relating to rehabilitation of mine infrastructure and

# Notes to the Consolidated Financial Statements

continued

dismantling obligations are added to or deducted from the related asset, other than the unwinding of the discount which is recognised as a finance cost in the income statement as it occurs.

If the change in the liability results in a decrease in the liability that exceeds the carrying amount of the asset, the asset is written-down to nil and the excess is recognised immediately in the income statement. If the change in the liability results in an addition to the cost of the asset, the recoverability of the new carrying amount is considered. Where there is an indication that the new carrying amount is not fully recoverable, an impairment test is performed with the write-down recognised in the income statement in the period in which it occurs.

The amount of the provision relating to rehabilitation of environmental disturbance caused by on-going production and extraction activities is recognised in the income statement as incurred. Changes in the liability are charged to the income statement as rehabilitation expense, other than the unwinding of the discount which is recognised as a finance cost.

## **(n) Trade and other payables**

Trade and other payable are stated at amortised cost.

## **(o) Financing Income**

Interest income is recognised as it accrues taking into account the effective yield on the financial asset.

## **(p) Income tax**

Income tax on the income statement for the year comprises current and deferred tax. Income tax is recognised in the income statement 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: goodwill, the initial recognition of assets and liabilities that affect neither accounting nor taxable profit; 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 wholly-owned Australian resident entities have formed a tax-consolidated group.

## **(q) Goods and services tax**

Revenue, expenses and assets are recognised net of the amount of goods and services tax (GST), except where the amount of GST incurred is not recoverable from the taxation authority. In these circumstances, the GST is recognised as part of the cost of acquisition of the asset or as part of the expense.

Receivables and payables are stated with the amount of GST included. The net amount of GST recoverable from, or payable to, the ATO is included as a current asset or liability in the balance sheet.

Cash flows are included in the statement of cash flows on a gross basis. The GST components of cash flows arising from investing and financing activities which are recoverable from, or payable to, the ATO are classified as operating cash flows.

## **(r) Derivatives**

The financial entity does not hold any derivative financial instruments.

# Notes to the Consolidated Financial Statements

continued

## **(s) Revenue**

Revenue from the sale of goods is recognised in the income statement when the significant risks and rewards of ownership have been transferred to the buyer.

No revenue is recognised if there are significant uncertainties regarding recovery of the consideration due, the costs incurred or to be incurred cannot be measured reliably, there is a risk of return of goods or there is continuing management involvement with the goods.

## **(t) Non-current assets held for sale and discontinued operations**

Immediately before classification as held for sale, the measurement of the assets (and all assets and liabilities in a disposal group) is brought up-to-date in accordance with applicable accounting standards. Then, on initial classification as held for sale, non-current assets and disposal groups are recognised at the lower of carrying amount and fair value less costs to sell.

Impairment losses on initial classification as held for sale are included in profit or loss, even when there is a revaluation. The same applies to gains and losses on subsequent re-measurement.

A discontinued operation is a component of the consolidated entity's business that represents a separate major line of business or geographical area of operations or is a subsidiary acquired exclusively with a view to resale.

Classification as a discontinued operation occurs upon disposal or when the operation meets the criteria to be classified as held for sale, if earlier. A disposal group that is to be abandoned may also qualify.

# Notes to the Consolidated Financial Statements

continued

## 2 Segment reporting

### Business and geographical segments

The consolidated entity operates predominantly as a tungsten explorer in Australia.

## 3 Revenue

	Consolidated		The Company	
	2006 \$000	2005 \$000	2006 \$000	2005 \$000
Other income	-	-	2	-
Inter-company management fees	-	-	-	280
	-	-	2	280

## 4 Other income

Net gain on disposal of property, plant and equipment	-	3	-	-
---	---	---	---	---

## 5 Employee expenses

	Consolidated		The Company	
	2006 \$000	2005 \$000	2006 \$000	2005 \$000
Wages and salaries	32	-	32	-
Share based payments	170	-	170	-
	202	-	202	-

The expenses recognised in the Income Statement consist of wages and share based payments.

Grant date/employees entitled	No. of Instruments	Vesting conditions	Contractual life of options
First tranche options. Issued 4 July 2005 to Directors and Executives	437,500	Right to convert only upon Financial Close	5 years
Second tranche options. Issued 4 July 2005 to Directors and Executives	562,500	Right to convert only upon the later of 2 years from issue date or Financial Close	5 years

The fair value of services received in return for share options granted to employees is measured by reference to the fair value of share options granted. The estimate of the fair value of the services received is measured based on a binomial lattice model. The contractual life of the option (5 years) is used as an input into this model. Expectation of early exercise is incorporated into the binomial lattice model.

Fair value at measurement date	17 cents
Share price	70 cents
Exercise price	0.001 cents
Expected volatility	20.0%
Option life	5 years
Expected dividends	-
Risk free interest rate*	5.2%
Market risk of no Financial Close	10.0%

\* Based upon 10 year Commonwealth Government Bond rate

# Notes to the Consolidated Financial Statements

continued

## 5 Employee expenses (continued)

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

### First Tranche Options

First tranche options may only be converted into fully paid ordinary shares during the period commencing on the first tranche closing performance share conversion date and ending five years after the issue date (24 May 2005), as approved by the shareholders at a general meeting on 24 May 2005.

### Second Tranche Options

Second tranche options may only be converted into fully paid ordinary shares during the period commencing on the second tranche closing performance share conversion date and ending five years after the issue date (24 May 2005), as approved by the shareholders at a general meeting on 24 May 2005.

Terms of closing performance shares are summarised in Note 21.

## 6 Auditors' remuneration

	Consolidated		The Company	
	2006	2005	2006	2005
	\$000	\$000	\$000	\$000
<b>Audit services</b>				
Auditors of the Company <i>KPMG Australia</i> :				
Audit and review of financial reports	38,000	33,250	38,000	33,250
Other regulatory audit services – AIFRS conversion	14,600	–	14,600	–
	<b>52,600</b>	<b>33,250</b>	<b>52,600</b>	<b>33,250</b>

## 7 Income tax expense

### Numerical reconciliation between tax expense and pre-tax net profit

	Consolidated		The Company	
	2006	2005	2006	2005
	\$000	\$000	\$000	\$000
Profit/(loss) before tax	(808)	(98)	(716)	17
Income tax benefit/(expense) using the domestic corporation tax rate of 30%	242	29	215	(5)
Increase in income tax expense due to:				
Non-deductible expenses	(6)	(16)	(6)	(16)
Tax losses not booked	(236)	(13)	(251)	(110)
Decrease in income tax expense due to:				
Related party loan forgiven	–	–	42	131
Income tax expense on pre-tax net profit	–	–	–	–
<b>Recognised in the income statement</b>				
<b>Tax expense</b>				
Current year expense	–	–	–	–
Deferred expense	–	–	–	–
	–	–	–	–

# Notes to the Consolidated Financial Statements

continued

## 8 Assets held for re-sale and discontinued operation

During the year ended 30 June 2005, the consolidated entity also disposed of 100% interest in Great Northern NSW Pty Ltd for \$290,000. Further details of this disposal are provided in Note 26.

No remaining sapphire assets are being held for re-sale. The consolidated entity holds a 74.5% interest in the Eastern Feeder Joint Venture (EFJV). The principle activities of EFJV are sapphire mining and exploration. For the year ended 30 June 2006, EFJV made an operating loss of \$12,000 (2005 \$1,000 loss).

During the year ended 30 June 2006, Directors resolved to retain the consolidated entity's interest in EFJV.

The consolidated entity also held a 50% interest in the Weean Joint Venture until 27 June 2005. For the year ended 30 June 2006, contribution to the consolidated entity's operating profit was \$Nil (2005 \$51,000).

Details of assets and liabilities of the consolidated entity representing the consolidated entity's interest in the assets and liabilities employed in the joint ventures, recorded in accordance with the accounting policies set out in Note 1, are provided in Note 14.

## 9 Earnings per share

### Basic and diluted earning per share

The calculation of basic and diluted loss per share at 30 June 2006 was based on the loss attributable to ordinary shareholders of \$808,000 (2005: \$275,000) and a weighted average number of ordinary shares outstanding during the year ended 30 June 2006 of 33,400,859 (2005: 20,804,781), calculated as follows:

### Profit attributable to ordinary shareholders

	Consolidated	
	2006	2005
	\$000	\$000
Profit/(loss) for the period		
– continuing operations	(808)	(98)
– discontinued operations	–	(177)
	<b>(808)</b>	<b>(275)</b>

### Weighted average number of ordinary shares

	Number of shares (thousands)	
	2006	2005
Issued ordinary shares at 1 July	30,690	19,690
Effect of shares issued 24 May 2005	–	1,115
Effect of shares issued 16 December 2005	2,470	–
Effect of shares issued 27 January 2006	118	–
Effect of shares issued 10 March 2006	123	–
Weighted average number of ordinary shares at 30 June	<b>33,401</b>	<b>20,805</b>

The First and Second Tranche Closing Performance Shares and Options are not dilutive due to the uncertainty associated with meeting the milestones set out in the conditions of issues.

# Notes to the Consolidated Financial Statements

continued

## 10 Cash and cash equivalents

	Note	Consolidated		The Company	
		2006 \$000	2005 \$000	2006 \$000	2005 \$000
Bank balances		523	764	499	717
Call deposits		2,800	1,500	2,800	1,500
Cash and cash equivalents in the statement of cash flows		3,323	2,264	3,299	2,217

## 11 Trade and other receivables

		Consolidated		The Company	
		2006 \$000	2005 \$000	2006 \$000	2005 \$000
<b>Current</b>					
Trade receivables		-	4	-	1
Deposit		-	150	-	150
Receivable from disposal of subsidiary	26	60	150	60	150
Prepayments		1	-	1	-
		61	304	61	301
<b>Non current</b>					
Receivables due from controlled entities at fair value		-	-	195	239
Security deposits		39	24	-	-
		39	24	195	239

Trade receivables are shown net of the impairment losses amount to \$Nil (2005: \$Nil) recognised in the current year.

## 12 Inventories

Finished goods		28	28	28	-
----------------	--	----	----	----	---

## 13 Investments accounted for using the equity method

### Investments in associates

In the financial statements of the Company, investments in associates are accounted for at fair value and included with other financial assets. (Refer Note16). The consolidated entity accounts for investments in associates using the equity method.

Name	Principal activities	Country of incorporation	Reporting date	Ownership interest	
				2006	2005
GTN Copper Technology Pty Ltd	Evaluation of copper projects using Intec technology	Australia	30 June	36.3%	36.3%

# Notes to the Consolidated Financial Statements

continued

The consolidated entity has the following investments in associates:

	Revenues (100%) \$000	Profit/ (loss) (100%) \$000	Share of associates net profit/(loss) recognised \$000	Total Assets (100%) \$000	Total Liabilities (100%) \$000	Net assets as reported by associates (100%) \$000	Share of associate's net assets equity accounted \$000
2006							
GTN Copper Technology Pty Ltd	-	-	-	275	-	275	100
	-	-	-	275	-	275	100
2005							
GTN Copper Technology Pty Ltd	-	-	-	275	-	275	100
	-	-	-	275	-	275	100

## 14 Interest in joint venture operation

The consolidated entity has a 74.5% (2005: 74.5%) interest in the Eastern Feeder Joint Venture, an unincorporated joint venture whose principal activity is sapphire mining at Kings Plains, Inverell. For the year ended 30 June 2006, the contribution to the joint venture to the operating result of the consolidated entity was a loss of \$12,000 (2005: loss of \$1,000). Included in the assets and liabilities of the consolidated entity are the following assets and liabilities employed in the joint venture:

	Consolidated		The Company	
	2006 \$000	2005 \$000	2006 \$000	2005 \$000
<b>Current assets</b>				
Cash assets	25	47	-	-
Trade debtors	-	4	-	-
<b>Total current assets</b>	<b>25</b>	<b>51</b>	<b>-</b>	<b>-</b>
<b>Non current assets</b>				
Receivables	39	24	-	-
Exploration Expenditure	37	37	-	-
	<b>76</b>	<b>61</b>	<b>-</b>	<b>-</b>
Plant and equipment	885	885	-	-
Less accumulated depreciation	(885)	(884)	-	-
	-	1	-	-
<b>Total non current assets</b>	<b>76</b>	<b>62</b>	<b>-</b>	<b>-</b>
<b>Total assets</b>	<b>101</b>	<b>113</b>	<b>-</b>	<b>-</b>
<b>Current liabilities</b>				
Trade creditors	4	4	-	-
Provisions	47	47	-	-
<b>Total current liabilities</b>	<b>51</b>	<b>51</b>	<b>-</b>	<b>-</b>
<b>Total liabilities</b>	<b>51</b>	<b>51</b>	<b>-</b>	<b>-</b>

# Notes to the Consolidated Financial Statements

continued

## 15 Deferred tax assets and liabilities

### Recognised deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following:

	Assets		Liabilities		Net	
	2006	2005	2006	2005	2006	2005
<b>Consolidated</b>	<b>\$000</b>	<b>\$000</b>	<b>\$000</b>	<b>\$000</b>	<b>\$000</b>	<b>\$000</b>
Intangible assets	-	-	3,160	2,195	3,160	2,195
Provisions	(83)	(14)	-	-	(83)	(14)
Tax losses	(919)	(23)	-	-	(919)	(23)
Tax (assets)/liabilities	(1,002)	(37)	3,160	2,195	2,158	2,158
Set off of tax	1,002	37	(1,002)	(37)	-	-
Net tax (assets)/liabilities	-	-	2,158	2,158	2,158	2,158

	Assets		Liabilities		Net	
	2006	2005	2006	2005	2006	2005
<b>The Company</b>	<b>\$000</b>	<b>\$000</b>	<b>\$000</b>	<b>\$000</b>	<b>\$000</b>	<b>\$000</b>
Intangible assets	-	-	1,023	75	1,023	75
Provisions	(69)	-	-	-	(69)	-
Tax losses	(879)	-	-	-	(879)	-
Tax (assets)/liabilities	(948)	-	1,023	75	75	75
Set off of tax	948	-	(948)	-	-	-
Net tax (assets)/liabilities	-	-	75	75	75	75

## 16 Other Financial Assets

	Consolidated		The Company	
	2006	2005	2006	2005
	<b>\$000</b>	<b>\$000</b>	<b>\$000</b>	<b>\$000</b>
<b>Non Current assets</b>				
Shares in subsidiaries at cost	-	-	6,943	6,943
Investments in associates at fair value	-	-	100	100
	-	-	7,043	7,043

## 17 Property, Plant and equipment

	Consolidated			The Company		
	Land and buildings	Plant and equipment	Total	Land and buildings	Plant and equipment	Total
	<b>\$000</b>	<b>\$000</b>	<b>\$000</b>	<b>\$000</b>	<b>\$000</b>	<b>\$000</b>
<b>Cost</b>						
Balance at 1 July 2004	-	1,605	1,605	-	-	-
Disposals	-	(1,410)	(1,410)	-	-	-
Balance at 30 June 2005	-	195	195	-	-	-
Balance at 1 July 2005	-	195	195	-	-	-
Additions	703	2	705	703	2	705
Balance at 30 June 2006	703	197	900	703	2	705

# Notes to the Consolidated Financial Statements

continued

	Land and buildings \$000	Consolidated Plant and equipment \$000	Total \$000	Land and buildings \$000	The Company Plant and equipment \$000	Total \$000
<b>Depreciation</b>						
Balance at 1 July 2004	–	(1,569)	(1,569)	–	–	–
Depreciation change for the year	–	(25)	(25)	–	–	–
Disposal		1,403	1,403			
Balance at 30 June 2005	–	(191)	(191)	–	–	–
Balance at 1 July 2005	–	(191)	(191)	–	–	–
Depreciation change for the year	–	(4)	(4)	–	–	–
Balance at 30 June 2006	–	(195)	(195)	–	–	–
<b>Carrying amounts</b>						
At 1 July 2004	–	36	36	–	–	–
At 30 June 2005	–	4	4	–	–	–
At 1 July 2005	–	4	4	–	–	–
At 30 June 2006	703	2	705	703	2	705

## 18 Intangible assets

	Exploration and evaluation \$000	Consolidated Mining Rights \$000	Total \$000	Exploration and evaluation \$000	The Company Mining Rights \$000	Total \$000
<b>Cost</b>						
Balance at 1 July 2004	249	–	249	–	–	–
Write down of capitalised development costs	(70)	–	(70)	–	–	–
Additions	193	9,026	9,219	193	–	193
Balance at 30 June 2005	372	9,026	9,398	193	–	193
Balance at 1 July 2005	372	9,026	9,398	193	–	193
Additions	3,218	–	3,218	3,218	–	3,218
Balance at 30 June 2006	3,590	9,026	12,616	3,411	–	3,411

### Exploration and evaluation assets

The recoverability of the carrying amounts of exploration and evaluation assets and mining rights is dependent on the successful development and commercial exploitation or sale of the respective area of interest.

# Notes to the Consolidated Financial Statements

continued

## 19 Trade and other payables

	Consolidated		The Company	
	2006 \$000	2005 \$000	2006 \$000	2005 \$000
<b>Current</b>				
Trade payables	221	250	221	249
Other trade payables and accrued expenses	214	106	214	103
Non-trade payables and accrued expenses	1	–	1	–
	<b>436</b>	<b>356</b>	<b>436</b>	<b>352</b>
<b>Non current</b>				
Amounts payable to controlled entities	–	–	–	97
	<b>436</b>	<b>356</b>	<b>436</b>	<b>449</b>

## 20 Provisions – current

	Consolidated			The Company		
	Mine rehabilitation \$000	Other \$000	Total \$000	Mine rehabilitation \$000	Other \$000	Total \$000
<b>Cost</b>						
Balance at 1 July 2004	222	7	229	–	–	–
Provisions (used)/made during the year	(175)	(7)	(182)	–	–	–
Balance at 30 June 2005	47	–	47	–	–	–
Balance at 1 July 2005	47	–	47	–	–	–
Additions	230	–	230	230	–	230
Balance at 30 June 2006	277	–	277	230	–	230

## 21 Capital and reserves

### Share capital

	The Company	
	2006 Number of shares	2005 Number of shares
<b>Ordinary shares, fully paid</b>		
On issue at 1 July	30,689,713	19,689,713
Share issue 24 May 2005	–	11,000,000
Share issue 16 December 2005	4,600,000	–
Share issue 27 January 2006	280,313	–
Share issue 10 March 2006	400,000	–
On issue at 30 June	<b>35,970,026</b>	<b>30,689,713</b>
<b>First Tranche Closing Performance Shares, fully paid (\$0.00001 each)</b>		
On issue at 1 July	8,000,000	–
Share issue 24 May 2005	–	8,000,000
On issue at 30 June	<b>8,000,000</b>	<b>8,000,000</b>
<b>Second tranche Closing Performance Shares, fully paid (\$0.00001 each)</b>		
On issue at 1 July	8,000,000	–
Share issue 24 May 2005	–	8,000,000
On issue at 30 June	<b>8,000,000</b>	<b>8,000,000</b>

# Notes to the Consolidated Financial Statements

continued

## Ordinary Shares

	Consolidated		The Company	
	2006 \$000	2005 \$000	2006 \$000	2005 \$000
Balance at beginning of year	19,942	13,122	19,942	13,122
5,280,313 ordinary fully paid shares issued for cash	5,280	–	5,280	–
11,000,000 ordinary fully paid shares issued to acquire 100% of Australian Tungsten Pty Ltd	–	6,820	–	6,820
Less capital raising costs	(202)	–	(202)	–
Balance at end of year	25,020	19,942	25,020	19,942

No dividends have been declared or paid by the Company during or since the end of the financial year.

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.

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

## Closing Performance Shares

The First Tranche Closing Performance Shares (CPSs) issued to the vendors of ATPL are exercisable at any time during the period commencing with the achievement of the funding and financing arrangements for the King Island Scheelite project (Financial Close). The Second Tranche CPSs issued to the vendors of Australian Tungsten Pty Ltd are exercisable at any time during the period after Financial Close and a minimum of 2 years from the date of issue.

Holders of CPS have:

- No right to any dividend prior to conversion into ordinary shares;
- The right to be notified by the Company of Financial Close within 5 Business Days of Financial Close;
- The right on redemption and the right on winding up or reduction of capital pari passu with any other First Tranche CPS and pari passu with ordinary shares of the Company to the repayment of the Initial Subscription Amount for the First Tranche CPSs;
- No right to participate in the surplus profits or assets of the Company;
- The right to receive all notices, audited accounts and the reports which the holders of ordinary shares are entitled to receive;
- The right to attend any general meeting of the Company, but not to vote or to move or second any resolution or speak at any meeting except in respect of a resolution which directly affects any of the rights, privileges or conditions attaching to the CPSs or the exercise and enjoyment of such rights, privileges or conditions, in the event of which each CPS shall confer on its holder one vote on a show of hands and one vote on a poll; and
- Ordinary shares issued on conversion of the CPSs will rank pari passu in all respects with other ordinary shares of the Company. The Company will apply for quotation on the ASX of all ordinary shares of the Company issued on conversion of CPSs.

## Reserves

	Note	Consolidated		The Company	
		2006 \$000	2005 \$000	2006 \$000	2005 \$000
Balance at 1 July		–	–	–	–
Share based payments	5	170	–	170	–
Balance at 30 June		170	–	170	–

# Notes to the Consolidated Financial Statements

continued

## 22 Financial instruments

### Effective interest rates and repricing analysis

In respect of income-earning financial assets and interest-bearing financial liabilities, the following table indicates their effective interest rates at the balance sheet date and the periods in which they reprice.

	Effective interest rate %	Total \$000	6 months or less \$000	6-12 months \$000	1-2 years \$000	2-5 years \$000	More than 5 years \$000
<b>Consolidated</b>							
<b>2006</b>							
Cash and cash equivalents	5.76	3,323	3,323	-	-	-	-
2005							
Cash and cash equivalents	5.25	2,264	2,264	-	-	-	-
<b>The Company</b>							
<b>2006</b>							
Cash and cash equivalents	5.80	3,299	3,299	-	-	-	-
2005							
Cash and cash equivalents	5.25	2,217	2,217	-	-	-	-

### Fair values

The fair values together with the carrying amounts shown in the balance sheets are as follows:

	Note	Carrying amount 2006 \$000	Fair value 2006 \$000	Carrying amount 2005 \$000	Fair value 2005 \$000
<b>Consolidated</b>					
Trade and other receivables	11	100	100	328	328
Cash and cash equivalents	10	3,323	3,323	2,264	2,264
Trade and other payables	19	(436)	(436)	(356)	(356)
		<b>2,987</b>	<b>2,987</b>	2,236	2,236
<b>The Company</b>					
Trade and other receivables	11	256	256	540	540
Cash and cash equivalents	10	3,299	3,299	2,217	2,217
Trade and other payables	19	(436)	(436)	(449)	(449)
		<b>3,119</b>	<b>3,119</b>	2,308	2,308

# Notes to the Consolidated Financial Statements

continued

## 23 Capital and other commitments

	Consolidated		The Company	
	2006 \$000	2005 \$000	2006 \$000	2005 \$000
<b>Capital expenditure commitments</b>				
<b>Plant and equipment</b>				
Contracted but not provided for and payable:				
Within one year	-	-	-	-
One year or later and not later than five years	-	-	-	-
Later than five years	-	-	-	-
	-	-	-	-
<b>Joint venture commitments</b>				
Capital commitments of the consolidated entity to the joint venture operation:				
Within one year	-	-	-	-

### Exploration expenditure commitments

In order to maintain current rights of tenure to exploration tenements, the consolidated entity is required to perform minimum exploration work to meet the minimum expenditure requirements specified by various State governments. These obligations are subject to renegotiation when application for a mining lease is made and at other times. These obligations are not provided for in the financial report and are payable:

	Consolidated		The Company	
	2006 \$000	2005 \$000	2006 \$000	2005 \$000
Within one year	572	-	-	-
One year or later and not later than five years	43	-	-	-
Later than five years	-	-	-	-
	615	-	-	-

## 24 Consolidated entities

	Country of incorporation	Ownership interest	
		2006 %	2005 %
<b>Parent entity</b>			
King Island Scheelite Limited	Australia		
<b>Subsidiaries</b>			
Queensland Polymetallic Resources Pty Ltd (deregistered)	Australia	-	100
Seraph Sapphires Pty Ltd	Australia	100	100
GTN Tanzania Pty Ltd	Tanzania	100	100
GTN Operations Pty Ltd	Tanzania	65	65
Eastern Feeder Holdings Pty Ltd	Australia	100	100
Australian Tungsten Pty Ltd	Australia	100	100

In the financial statement of the Company, investments in controlled entities and associates are measured at cost and included with other financial assets. Refer to note 16.

# Notes to the Consolidated Financial Statements

continued

## 25 Acquisition of subsidiary

During the previous financial year ended 30 June 2005, the consolidated entity acquired all the shares in Australian Tungsten Pty Ltd for \$6,943,487 satisfied in shares and receivables. The consolidated entity has been an explorer and evaluator of tungsten resources on King Island, Tasmania for the period 24 May 2005 to 30 June 2006 and this subsidiary did not trade during the year. This acquisition had the following effect on the consolidated entity's assets and liabilities.

Net assets at the acquisition date

	<b>Carrying amounts \$000</b>	<b>Fair value adjustments \$000</b>	<b>Recognised values \$000</b>
Current assets	–	–	–
Intangible assets – mining tenements	–	9,026	9,026
Other	1	(1)	–
Deferred tax liabilities	–	(2,083)	(2,083)
Net identifiable assets and liabilities	<u>1</u>	<u>6,942</u>	<u>6,943</u>
Consideration paid, satisfied in shares *			<u>6,943</u>

\* Include professional fees amounting to \$123,000.

## 26 Disposal of subsidiary

During the previous financial year ended 30 June 2005, the consolidated entity disposed of Great Northern NSW Pty Ltd for \$290,000 satisfied in cash and receivables. This disposal had the following effect on the consolidated entity's assets and liabilities.

Net assets at the disposal date

	<b>Carrying amounts \$000</b>
Sapphire stock on hand	<u>164</u>
Plant & Equipment	7
Security deposits	139
Rehabilitation	(67)
Net identifiable assets and liabilities	<u>243</u>
Profit on disposal	<u>47</u>
	<u>290</u>
Consideration received, satisfied in	
–cash	140
–receivable	<u>150</u>
	<u>290</u>

# Notes to the Consolidated Financial Statements

continued

## 27 Reconciliation of cash flows from operating activities

	Consolidated		The Company	
	2006 \$000	2005 \$000	2006 \$000	2005 \$000
<b>Cash flows from operating activities</b>				
(Loss)/Profit for the year	(808)	(275)	(716)	671
Adjustments for:				
Proceeds from sale of property plant & equipment	(4)	(3)	-	-
Proceeds from sale of controlled entities	(90)	-	(90)	-
Payments for security deposits	15	-	-	-
Gain on sale of subsidiary	-	(47)	-	(290)
Depreciation and amortisation	4	25	-	-
Write-off of incorporation costs	-	1	-	-
Write down of capitalised development	-	71	-	-
Related parties loan forgiveness	-	-	-	(437)
Increase in deferred taxes payable	-	287	-	287
Share based payments	170	-	170	-
<b>Operating profit before changes in working capital and provisions</b>	<b>(713)</b>	59	<b>(636)</b>	231
(Increase)/decrease in receivables	228	14	284	-
(Increase)/decrease in inventories	-	230	(28)	-
Increase/ (decrease) in payables	(167)	(20)	(260)	(20)
Increase/ (decrease) in provisions	230	(115)	230	-
<b>Net cash (used in)/generated from operating activities</b>	<b>(422)</b>	168	<b>(410)</b>	211

## 28 Key management personnel disclosures

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

### Non-Executive Directors

Raymond Soper  
 Anthony Haggarty  
 Robin Morritt  
 Andrew Plummer (appointed 1 March 2006)

Total remuneration for all non-executive directors, was last voted upon by shareholders in March 2004. Directors' base fees are \$28,776 per annum (2005: \$20,000 p.a). The Chairman receives \$33,776.

Directors' fees cover all main Board activities. There are no termination or retirement benefits for non-executive directors.

### Individual directors and executive compensation disclosures

Apart from the details disclosed in this note, no director has entered into a material contract with the Company or the consolidated entity since the end of the previous financial year and there were no material contracts involving directors' interests existing at year-end.

### Contract terms and conditions

All directors are paid for the time incurred in attending board meetings. Non executive directors do not receive performance based remuneration. No bonuses were paid in respect of the current or previous financial years.

No director remuneration package includes terms for redundancy, retirement or termination benefits. No such amounts were accrued or paid for any director during the current financial year.

# Notes to the Consolidated Financial Statements

continued

## 28 Key management personnel disclosures (continued)

Each director's terms of employment are set out as follows:

### *Mr Soper (Non-Executive Chairman)*

Mr Soper, or an entity controlled by Mr. Soper, is paid at the rate of \$30,987 p.a. plus 9% statutory superannuation to be a non-executive Director and Chairman. No annual or long service leave accrues to Mr Soper. Any further work on behalf of the Company is paid on a time incurred basis. Details of this remuneration are set out below.

196,875 First and 253,125 Second Tranche Options were approved to be issued to Mr. Soper at a general meeting of shareholders held on 24 May 2005; issued on 4 July 2005; and may only be exercised after the achievement of financial close. Further details of options issued to Mr. Soper are set out below.

### *Mr Haggarty (Non-Executive)*

Mr Haggarty, or an entity controlled by Mr. Haggarty, is paid at the rate of \$26,400 p.a. plus 9% statutory superannuation to be a non-executive Director. Any further work on behalf of the Company is paid on a time incurred basis. No annual or long service leave accrues to Mr Haggarty. Details of this remuneration are set out below.

### *Mr Plummer (Non-Executive)*

Mr Plummer, or an entity controlled by Mr. Plummer, is paid at the rate of \$26,400 p.a. plus 9% statutory superannuation to be a non-executive Director. Any further work on behalf of the Company is paid on a time incurred basis. No annual or long service leave accrues to Mr Plummer. Details of this remuneration are set out below.

### *Dr Morritt (Non-Executive)*

Dr Morritt is paid at the rate of \$26,400 p.a. plus 9% statutory superannuation to be a non-executive Director. Any further work on behalf of the Company is paid on a time incurred basis. No annual or long service leave accrues to Dr Morritt. Details of this remuneration are set out below.

## **Options issued to Directors**

The following factors and assumptions were used in determining the fair value of all options on grant date:

<b>Grant Date</b>	<b>Expiry Date</b>	<b>Fair value per option cents</b>	<b>Exercise Price cents</b>	<b>Price of Shares on Grant Date cents</b>	<b>Expected Volatility %</b>	<b>Risk free interest rate %</b>	<b>Market risk of no financial close %</b>	<b>Dividend Yield %</b>
4 July 2005	3 July 2010	17	0.001	70	20.0	5.2	10.0	–

All options refer to options over ordinary shares of King Island Scheelite Limited, which are exercisable on a one-for-one basis.

Details of options over ordinary shares in the Company that were granted to Directors, and each of the named Company executives and relevant group executives who receive the highest remuneration, as compensation during the reporting period and details of options that were vested during the reporting period are as follows:

# Notes to the Consolidated Financial Statements

continued

<b>Directors</b>	<b>Number of options granted during 2006</b>	<b>Grant Dates</b>	<b>Number of options vested during 2006</b>	<b>Fair Value of Option at Grant Date</b>	<b>Exercise Price per Option</b>	<b>Expiry Date</b>
Mr. Ray Soper	450,000	4 July 2005	450,000	cents 17	cents 0.001	3 July 2010
Mr. Kerry Heywood	450,000	4 July 2005	450,000	17	0.001	3 July 2010

During the reporting period, no shares were issued on the exercise of options previously granted as compensation.

Details of the vesting profile of the options granted as remuneration to each Director of the Company, and each of the named Company executives and relevant group executives who receive the highest remuneration, is detailed below:

<b>Directors</b>	<b>Options granted</b>		<b>Vested in year</b>	<b>Forfeited in year</b>	<b>Financial year in which grant vested</b>	<b>Value yet to vest</b>
	<b>Number</b>	<b>Date</b>				
Mr. Ray Soper	450,000	4 July 2005	100 %	– %	30 June 2006	–
Mr. Kerry Heywood	450,000	4 July 2005	100	–	30 June 2006	–

The movement during the reporting period, by value, of options over ordinary shares in the Company held by each Company director and each of the named Company executives and relevant group executives who receive the highest remuneration is detailed below:

<b>Directors</b>	<b>Value of options</b>			<b>Total option value in year</b>
	<b>Granted in year</b>	<b>Exercised in year</b>	<b>Forfeited in year</b>	
Mr. Ray Soper	\$ 76,500	\$ –	\$ –	\$ 76,500
Mr. Kerry Heywood	76,500	–	–	76,500

# Notes to the Consolidated Financial Statements

continued

## 28 Key management personnel disclosures (continued)

Details of the nature and amount of each major element of remuneration of each director of the Company and each of the named Company executives and relevant group executives who receive the highest remuneration are:

		Short-term			Total	Post-employment Super benefits	Other long term	Termination benefits	Share-based payments	Total	Proportion of remuneration performance related	Value of options as proportion of remuneration
		Salary & fees	Cash bonus	Non-monetary benefits							%	%
		\$	\$	\$	\$	\$	\$	\$	\$	\$	%	%
<b>Directors</b>												
R Soper <sup>5</sup>	<b>2006</b>	<b>122,679</b>	–	–	<b>122,679</b>	<b>2,789</b>	–	–	<b>76,500</b>	<b>201,968</b>	<b>38%</b>	<b>38%</b>
	2005	19,412	–	–	19,412	1,747	–	–	–	21,159	–	–
A Haggarty <sup>6</sup>	<b>2006</b>	<b>26,400</b>	–	–	<b>26,400</b>	<b>2,376</b>	–	–	–	<b>28,776</b>	–	–
	2005	–	–	–	–	–	–	–	–	–	–	–
R Morritt	<b>2006</b>	<b>26,400</b>	–	–	<b>26,400</b>	<b>2,376</b>	–	–	–	<b>28,776</b>	–	–
	2005	2,200	–	–	2,200	198	–	–	–	2,398	–	–
A Plummer (appointed 1 March 2006)	<b>2006</b>	<b>8,800</b>	–	–	<b>8,800</b>	<b>792</b>	–	–	–	<b>9,592</b>	–	–
	2005	–	–	–	–	–	–	–	–	–	–	–
K Heywood (CEO resigned 30 June 2005) <sup>7</sup>	<b>2006</b>	–	–	–	–	–	–	–	<b>76,500</b>	<b>76,500</b>	<b>100%</b>	<b>100%</b>
	2005	45,750	–	–	45,750	–	–	–	–	45,750	–	–
Total compensation (Consolidated Entity and Company)	<b>2006</b>	<b>184,279</b>	–	–	<b>184,279</b>	<b>8,333</b>	–	–	<b>153,000</b>	<b>345,612</b>	<b>44%</b>	<b>44%</b>
	2005	67,362	–	–	67,362	1,945	–	–	–	69,307	–	–

<sup>5</sup> Salary & fees include \$91,692 (2005 \$Nil) consulting fees paid or payable for the year ended 30 June 2006 by the Company to an entity controlled by Mr. Soper for the provision of consulting services.

<sup>6</sup> For the year ended 30 June 2006, the Company paid \$5,281 (2005 \$10,000) to a company associated with Mr. Haggarty for office sub-rental, sundry supplies and the provision of company secretarial services by Mr. Jones. Mr. Jones received no personal remuneration in respect of this role during the financial year ended 30 June 2005.

<sup>7</sup> Salary & fees include \$Nil (2005 \$45,750) consulting fees paid or payable for the year ended 30 June 2006 by the Company to an entity controlled by Mr. Heywood for the provision of consulting services.

The Company does not employ any executive persons who are responsible for the strategic direction and operational management of the consolidated entity. Non-executive directors have taken certain operational responsibilities on a temporary basis.

# Notes to the Consolidated Financial Statements

continued

## 28 Key management personnel disclosures (continued)

### Movements in securities

The movement during the reporting period in the number of securities of King Island Scheelite Limited held, directly, indirectly or beneficially, by each specified director and specified executive, including their personally-related entities is as follows:

	Held at 1 July Number	Issued Number	Purchased on market Number	Sold Number	Held at 30 June Number
<b>Directors</b>					
<b>Year ended 30 June 2006</b>					
<i>Raymond Soper</i>					
Fully paid ordinary shares	112,512	50,000 (a)	–	–	162,512
First tranche options	–	196,875 (b)	–	–	196,875
Second tranche options	–	253,125(b)	–	–	253,125
<i>Anthony Haggarty</i>					
Fully paid ordinary shares	3,392,889	250,000(a)	–	–	3,642,889
<i>Robin Morritt</i>					
Fully paid ordinary shares	5,500,000	55,000(a)	–	–	5,555,000
First tranche closing performance shares	4,000,000	–	–	–	4,000,000
Second tranche closing performance shares	4,000,000	–	–	–	4,000,000
<i>Andrew Plummer (appointed 1 March 2006)</i>					
Fully paid ordinary shares	211,261	–	582,885	–	794,146
<b>Year ended 30 June 2005</b>					
<i>Raymond Soper</i>					
Fully paid ordinary shares	62,512	–	50,000	–	112,512
<i>Anthony Haggarty</i>					
Fully paid ordinary shares	3,392,889	–	–	–	3,392,889
<i>Robin Morritt</i>					
Fully paid ordinary shares	–	5,500,000(b)	–	–	5,500,000
First tranche closing performance shares	–	4,000,000(b)	–	–	4,000,000
Second tranche closing performance shares	–	4,000,000(b)	–	–	4,000,000

The terms and conditions of the grant of first and second tranche options are outlined in Note 5 to the accounts; and terms and conditions of closing performance shares are outlined in Note 21.

### Notes to movements in securities:

- (a) Ordinary fully paid shares were issued during the year for \$1.00 each in accordance with the Company's market placement and share purchase plan.
- (b) Ordinary shares, closing performance shares and options were issued in accordance with the general meeting of members held on 24 May 2005 which approved the Company's acquisition of all the issued shares of Australian Tungsten Pty Ltd.

# Notes to the Consolidated Financial Statements

continued

## 28 Key management personnel disclosures (continued)

### Equity holdings and transactions

#### Directors' transactions with the Company or its controlled entities

Aggregate amounts payable to directors and their director related entities for unpaid directors' fees, statutory superannuation owed to each director's superannuation fund, and consulting fees at balance date were as follows:

	Consolidated		The Company	
	2006 \$000	2005 \$000	2006 \$000	2005 \$000
Accounts Payable - current				
Raymond Soper	29,250	–	29,250	–
Anthony Haggarty	28,776	–	28,776	–
Robin Morritt	594	–	594	–
Andrew Plummer	9,592	–	9,592	–

The terms and conditions of the transactions with directors or their director related entities, outlined above, were no more favourable than those available, or which might reasonably be expected to be available, on similar transactions to non-director-related entities on an arm's length basis.

Excel Coal Limited has rendered accounting business consulting services, sub-let office space and provided sundry office support services to the Company. These charges were made to the Company on normal terms and conditions and in the ordinary course of business. Messrs Haggarty and Plummer are each directors of Excel Coal Limited. Following are details of these charges:

	Consolidated		The Company	
	2006 \$000	2005 \$000	2006 \$000	2005 \$000
Company secretarial, accounting, sub-let office space	6,190	10,000	6,190	10,000
Financial modelling	9,850	–	9,850	–
Sundry office expenses	1,811	–	1,811	–
	17,851	10,000	17,851	10,000

## 29 Non key management personnel disclosures

### Identity of related parties

The consolidated entity has a related party relationship with its subsidiaries (see note 24), associates (see note 13), joint venture (see note 14) and with its directors and executive officers (see note 28).

### Other related party transactions

The classes of non-director related parties are:

- wholly owned subsidiaries;
- partly owned subsidiaries;
- commonly controlled subsidiaries;
- associates; and
- directors of related parties and their personally related entities.

Transactions with non-director related parties are set out below.

# Notes to the Consolidated Financial Statements

continued

## Wholly-owned group loans

Loans to and from wholly owned controlled entities are denominated in Australian dollars, are unsecured, interest free and repayable on demand. The directors do not plan to call the loans in the next 12 months.

Aggregate amounts receivable from and payable to entities in the wholly owned consolidated entity at balance date:

	Note	Consolidated		The Company	
		2006 \$000	2005 \$000	2006 \$000	2005 \$000
Receivables					
Current	11	-	-	195	239
Payables					
Current	19	-	-	-	97

## Partly owned controlled entities

Details of interests in partly owned controlled entities are set out in Note 24.

## 30 Contingencies

Details of contingent liabilities where the probability of future payments/receipts is not considered remote are set out below:

### *Environmental*

The consolidated entity provides for all known environmental liabilities. While the directors believe, that based upon current information its provision for environmental rehabilitation are adequate, there can be no assurance that new material provisions will not be required as a result of new information or regulatory requirements with respect to known sites or identification of new remedial obligations at other sites.

The Environmental Protection Agency (EPA) issued a request in November 2004 for further analysis of the mill site at Herberton in Queensland, the location of a former tin operation of the consolidated entity. Following testing, it was determined that further rehabilitation of the site was required. The consolidated entity has yet to finalise the rectification required with the EPA and local council. The directors believe that the cost of such work should not exceed \$230,000 and during the year, the Company provided \$230,000 (2005: \$Nil) for the rehabilitation of Herberton.

### *Rehabilitation*

The consolidated entity has certain commitments imposed by the New South Wales Department of Mineral resources (DMR) to perform minimum exploration work on tenements. These obligations may be varied from time to time, are subject to approval and are expected to be fulfilled in the normal course of operations.

The consolidated entity has lodged security bonds totalling \$38,740 (2005: \$23,840) to the DMR as mining security deposits.

### *Purchase price and royalty*

The Consolidated Entity has a liability in respect of the acquisition of the King Island Scheelite tenements. The consideration for the acquisition of the Tenements is contingent on the decision to commercially mine. If the decision to mine is taken the amount payable is \$250,000. In addition a royalty of 1.5% of gross revenue is also payable contingent on successful extraction of tungsten ore or concentrate.

# Notes to the Consolidated Financial Statements

continued

## 30 Contingencies (continued)

### *Land*

On 12 July 2005, the Company entered into an agreement to acquire a 5 hectare block of land immediately on the northern boundary of the mine lease to ensure that an appropriate buffer zone is in place between the planned open pit and the Grassy township.

The purchase price paid by the Company to the vendor to acquire this property totalled \$700,000 net of any GST. Legal costs totalled \$3,000. The Company also agreed with the vendor that:

- (a) The Company would also make two payments to the vendor as follows:
  - (i) Pay \$100,000 when the Company obtains a permit for planning and development approval to carry on an extractive industry at the mining tenement; and
  - (ii) Pay an additional \$100,000 when the Company commences re-development construction of the tenement, including commencement of infrastructure construction;
- (b) In the event that the Company does not obtain a permit for planning and development approval to carry on an extractive industry at the mining tenement, the vendor has the option to re-purchase this same land for:
  - (i) A purchase price of \$600,000, inclusive of any GST; plus
  - (ii) The written down value amount of any improvements effected to the property by the Company since the date of acquisition of the property by the Company, inclusive of any GST.

## 31 Subsequent events

There has not arisen in the interval between the end of the financial year and the date of this report any item, transaction or event of a material and unusual nature likely, in the opinion of the directors of the Company, to affect significantly the operations of the consolidated entity, the results of those operations, or the state of affairs of the consolidated entity, in future financial years; except for the following:

### *Xiamen Tungsten Co. Ltd*

The Company entered into a non-binding Letter of Intent (LOI) with Xiamen Tungsten Co. Ltd (XTC) in September 2006, to establish a Joint Venture to re-develop the King Island Scheelite mine;

XTC is a world leading tungsten processing and manufacturing company based in Xiamen, Fujian Province, China;

The non-binding LOI provides for the Company and XTC to establish an unincorporated Joint Venture to develop the King Island Scheelite mine re-development project as a 600,000 tonnes per annum open cut mine and treatment plant;

The LOI envisages that XTC will contribute 100% of the capital (including development and working capital) required to build the plant and to develop the project, and the Company will contribute its rights to exploit the resources on the tenements held by the Company. As a result, each party will hold a 50% participating Joint Venture interest in the project and contribute 50% each to monthly cash calls to cover operating costs;

Each party will take their 50% interest in project output in kind. The Company will be free to sell its share of project output for a market price;

XTC will provide technical support services to the project under a technical services agreement;

A Joint Venture Committee will be established to manage the project. The Joint Venture Committee will engage a Project Manager to manage the detailed design, construction and commissioning phases, and a Mine Operator to manage subsequent operations; and

As announced in the Quarterly Report to 30 June 2006, KIS is targeting completion of the Feasibility Study by September 2006. On completion, KIS will deliver a copy of the Feasibility Study to XTC and will then advance to a legally binding Heads of Agreement, followed by a formal Joint Venture Agreement.

# Notes to the Consolidated Financial Statements

continued

## Tax Consolidated Group

The Company and its wholly-owned Australian resident entities have formed a tax-consolidated group.

## 32 Explanation of transition to AIFRS

As stated in note 1 this is the consolidated entity's first financial year report prepared in accordance with Australian Accounting Standards – AIFRS.

The accounting policies in note 1 have been applied in preparing the financial report for the year ended 30 June 2006, the comparative information for the financial year ended 30 June 2005 and the preparation of an opening AIFRS balance sheet at 1 July 2004 (the consolidated entity's date of transition).

In preparing its opening AIFRS balance sheet, comparative information for the financial year ended 30 June 2006, the consolidated entity has adjusted amounts reported previously in financial statements prepared in accordance with its old basis of accounting (previous GAAP).

An explanation of how the transition from previous GAAP to AIFRS has affected the consolidated entity's financial position, financial performance and cash flows is set out in the following tables and the notes that accompany the tables.

### Reconciliation of the balance sheet

	Consolidated						The Company					
	Effect of			Effect of			Effect of			Effect of		
	Previous	transition	AIFRS	Previous	transition	AIFRS	Previous	transition	AIFRS	Previous	transition	AIFRS
	GAAP	to AIFRS		GAAP	to AIFRS		GAAP	to AIFRS		GAAP	to AIFRS	
1 July 2004			30 June 2005			1 July 2004			30 June 2005			
	\$000	\$000	\$000	\$000	\$000	\$000	\$000	\$000	\$000	\$000	\$000	
Cash and cash equivalents	2,419	–	2,419	2,264	–	2,264	2,034	–	2,034	2,217	–	2,217
Trade and other receivables	23	–	23	304	–	304	1	–	1	301	–	301
Inventories	422	–	422	28	–	28	–	–	–	–	–	–
<b>Total current assets</b>	<b>2,864</b>	<b>–</b>	<b>2,864</b>	<b>2,596</b>	<b>–</b>	<b>2,596</b>	<b>2,035</b>	<b>–</b>	<b>2,035</b>	<b>2,518</b>	<b>–</b>	<b>2,518</b>
Trade and other receivables	158	–	158	24	–	24	512	–	512	239	–	239
Investments accounted for using the equity method	100	–	100	100	–	100	–	–	–	–	–	–
Other financial assets	–	–	–	–	–	–	100	–	100	7,043	–	7,043
Property, plant and equipment	36	–	36	4	–	4	–	–	–	–	–	–
Intangible assets	249	–	249	7,602	1,796	9,398	–	–	–	480	(287)	193
Other	2	–	2	1	–	1	1	–	1	1	–	1
<b>Total non-current assets</b>	<b>545</b>	<b>–</b>	<b>545</b>	<b>7,731</b>	<b>1,796</b>	<b>9,527</b>	<b>613</b>	<b>–</b>	<b>613</b>	<b>7,763</b>	<b>(287)</b>	<b>7,476</b>
<b>Total assets</b>	<b>3,409</b>	<b>–</b>	<b>3,409</b>	<b>10,327</b>	<b>1,796</b>	<b>12,123</b>	<b>2,648</b>	<b>–</b>	<b>2,648</b>	<b>10,281</b>	<b>(287)</b>	<b>9,994</b>
Trade and other payables	88	–	88	356	–	356	84	–	84	352	–	352
Provisions	229	–	229	47	–	47	–	–	–	–	–	–
<b>Total current liabilities</b>	<b>317</b>	<b>–</b>	<b>317</b>	<b>403</b>	<b>–</b>	<b>403</b>	<b>84</b>	<b>–</b>	<b>84</b>	<b>352</b>	<b>–</b>	<b>352</b>
Deferred tax liabilities	–	75	75	–	2,158	2,158	–	75	75	–	75	75
Loan to controlled entities	–	–	–	–	–	–	510	–	510	97	–	97
<b>Total non-current liabilities</b>	<b>–</b>	<b>75</b>	<b>75</b>	<b>–</b>	<b>2,158</b>	<b>2,158</b>	<b>510</b>	<b>75</b>	<b>585</b>	<b>97</b>	<b>75</b>	<b>172</b>
<b>Total liabilities</b>	<b>317</b>	<b>75</b>	<b>392</b>	<b>403</b>	<b>2,158</b>	<b>2,561</b>	<b>594</b>	<b>75</b>	<b>669</b>	<b>449</b>	<b>75</b>	<b>524</b>
<b>Net assets</b>	<b>3,092</b>	<b>(75)</b>	<b>3,017</b>	<b>9,924</b>	<b>(362)</b>	<b>9,562</b>	<b>2,054</b>	<b>(75)</b>	<b>1,979</b>	<b>9,832</b>	<b>(362)</b>	<b>9,470</b>
Issued capital	13,122	–	13,122	19,942	–	19,942	13,122	–	13,122	19,942	–	19,942
Accumulated losses	(10,030)	(75)	(10,105)	(10,018)	(362)	(10,380)	(11,068)	(75)	(11,143)	(10,110)	(362)	(10,472)
<b>Total equity</b>	<b>3,092</b>	<b>(75)</b>	<b>3,017</b>	<b>9,924</b>	<b>(362)</b>	<b>9,562</b>	<b>2,054</b>	<b>(75)</b>	<b>1,979</b>	<b>9,832</b>	<b>(362)</b>	<b>9,470</b>

# Notes to the Consolidated Financial Statements

continued

## 32 Explanation of transition to AIFRS (continued)

### Reconciliation of profit

	Consolidated			The Company		
	Previous GAAP	Effect of transition to AIFRS	AIFRS	Previous GAAP	Effect of transition to AIFRS	AIFRS
	<b>For the year ended 30 June 2005</b>			<b>For the year ended 30 June 2005</b>		
	\$000	\$000	<b>\$000</b>	\$000	\$000	<b>\$000</b>
Revenue	545	(545)	–	1,107	(827)	280
Other revenue from ordinary activities	404	(404)	–	–	–	–
<b>Gross profit</b>	949	(949)	–	1,107	(827)	280
Administrative expenses	(937)	725	<b>(212)</b>	(149)	(214)	(363)
Other operating income	–	3	<b>3</b>	–	–	–
<b>Operating profit / (loss) before financing costs</b>	12	(221)	<b>(209)</b>	958	(1,041)	(83)
Financial income	–	111	<b>111</b>	–	100	100
<b>Profit/( loss) before tax</b>	12	(110)	<b>(98)</b>	958	(941)	17
Income tax expense	–	–	–	–	–	–
<b>Net Profit/(Loss) after tax but before profit/(loss) from discontinued operations</b>	12	(110)	<b>(98)</b>	958	(941)	17
Profit / (loss) attributable to discontinued operations, net of tax	–	(177)	<b>(177)</b>	–	654	654
<b>Profit/( loss) for the year</b>	12	(287)	<b>(275)</b>	958	(287)	671
Basic and diluted profit/(loss) per share	cents		<b>cents</b>			
From continuing operations	0.06		<b>(0.5)</b>			
From discontinued operations	–		<b>(0.8)</b>			
	0.06		<b>(1.3)</b>			

### Notes to the reconciliation of the balance sheet

#### a) Reconciliation of Profit

##### Analysis of Retained Earnings

	<b>1 Jul 2004</b>	<b>30 June 2005</b>
	<b>\$000</b>	<b>\$000</b>
Exploration costs – pre licence	–	(287)
Deferred tax	(75)	(75)
Total decrease to equity	(75)	(362)

#### b) Business combinations

The consolidated entity has applied AASB3 to all business combinations that have occurred since 1 July 2004 (the date of transition to AIFRS). The consolidated entity elected not to apply AIFRS retrospectively to all business combinations that occurred prior to the date of transition to AIFRS.

# Notes to the Consolidated Financial Statements

continued

c) Deferred tax liabilities increased as follows:

	<b>Consolidated</b>		<b>The Company</b>	
	1 Jul 2004 \$000	30 June 2005 \$000	1 July 2004 \$000	30 June 2005 \$000
Recognition of mining rights	–	2,083	–	–
Exploration and evaluation expenditure	75	75	75	75
Increase in deferred tax liability	75	2,158	75	75

The above movements resulted in the consolidated entity recognising deferred tax liabilities of \$75,000 at 1 July 2004 and \$2,158,000 at 30 June 2005.

d) The income statement re-classification in the Reconciliation of Profit relates to the reclassification of items arising from discontinued operations. There is no impact on net profit arising from these adjustments.

# Directors' Declaration



- 1 In the opinion of the directors of King Island Scheelite Limited (the Company):
  - (a) the financial statements and notes, set out on pages 17 to 51, are in accordance with the Corporations Act 2001, including:
    - (i) giving a true and fair view of the financial position of the Company and consolidated entity as at 30 June 2006 and of their performance, as represented by the results of their operations and their cash flows, for the year ended on that date; and
    - (ii) complying with Accounting Standards in Australia and the Corporations Regulations 2001; and
  - (b) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.
- 2 The directors have been given the declarations by the chief executive officer and chief financial officer for the financial year ended 30 June 2006 pursuant to Section 295A of the Corporations Act 2001.

Signed in accordance with a resolution of the Board of directors.

RJ Soper  
Director  
Sydney

29 September 2006

# Lead Auditor's Independence Declaration



## Lead auditor's independence declaration under Section 307C of the Corporations Act 2001

To: the directors of King Island Scheelite Limited

I declare that, to the best of my knowledge and belief, in relation to the audit for the financial year ended 30 June 2006 there have been:

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

KPMG

Anthony Jones  
Partner  
Sydney

29 September 2006

# Independent Audit Report

to the members of King Island Scheelite Limited

## Scope

### **The financial report and directors' responsibility**

The financial report comprises the income statements, statements of changes in equity, balance sheets, statements of cash flows, accompanying notes 1 to 32 to the financial statements, and the directors' declaration for both King Island Scheelite Limited (the "Company") and King Island Scheelite Limited and its controlled entities (the "consolidated entity"), for the year ended 30 June 2006. The consolidated entity comprises both the Company and the entities it controlled during that year.

The directors of the Company are responsible for the preparation and true and fair presentation of the financial report in accordance with the *Corporations Act 2001*. This includes responsibility for the maintenance of adequate accounting records and internal controls that are designed to prevent and detect fraud and error, and for the accounting policies and accounting estimates inherent in the financial report. The directors are also responsible for preparing the relevant reconciling information regarding the adjustments required under the Australian Accounting Standard AASB 1 First Time adoption of Australian Equivalents to International Financial Standards.

### **Audit approach**

We conducted an independent audit in order to express an opinion to the members of the Company. Our audit was conducted in accordance with Australian Auditing Standards in order to provide reasonable assurance as to whether the financial report is free of material misstatement. The nature of an audit is influenced by factors such as the use of professional judgement, selective testing, the inherent limitations of internal control, and the availability of persuasive rather than conclusive evidence. Therefore, an audit cannot guarantee that all material misstatements have been detected.

We performed procedures to assess whether in all material respects the financial report presents fairly, in accordance with the *Corporations Act 2001*, Australian Accounting Standards and other mandatory financial reporting requirements in Australia, a view which is consistent with our understanding of the Company's and the consolidated entity's financial position, and of their performance as represented by the results of their operations and cash flows.

We formed our audit opinion on the basis of these procedures, which included:

- examining, on a test basis, information to provide evidence supporting the amounts and disclosures in the financial report; and
- assessing the appropriateness of the accounting policies and disclosures used and the reasonableness of significant accounting estimates made by the directors.

While we considered the effectiveness of management's internal controls over financial reporting when determining the nature and extent of our procedures, our audit was not designed to provide assurance on internal controls.

# Independent Audit Report

to the members of King Island Scheelite Limited (continued)

## Audit opinion

In our opinion, the financial report of King Island Scheelite Limited is in accordance with:

- (a) the Corporations Act 2001, including:
  - (i) giving a true and fair view of the Company's and consolidated entity's financial position as at 30 June 2006 and of their performance for the year ended on that date; and
  - (ii) complying with Accounting Standards in Australia and the Corporations Regulations 2001; and
  
- (b) other mandatory professional reporting requirements in Australia.



KPMG



Anthony Jones  
Partner  
Sydney

29 September 2006

# Shareholder Information

At 29 September 2006 issued capital was 35,970,026 ordinary shares held by 752 holders.

At a general meeting on a show of hands, each shareholder present has one vote and on a poll each shareholder present has:

- (i) one vote for each fully paid share held; and
- (ii) for each share which is not fully paid a fraction of a vote equivalent to the proportion which the amount paid up, but not credited as paid up, on that share bears to the total of the amounts paid and payable (excluding amounts credited) on that share.

## 20 Largest Holders of Ordinary Shares and their Holdings at 29 September 2006.

	Ordinary Shares Number	% of Total
1 CATHERINE MORRITT	5,555,000	15.4
2 ABEX RESOURCES AUSTRALIA PTY LTD	4,474,676	12.4
3 ROBYN ELIZABETH GIBSON	4,138,000	11.5
4 THE GLEN RURAL PTY LTD	3,627,504	10.1
5 CHRYSALIS INVESTMENTS PTY LTD	2,249,922	6.3
6 INVIA CUSTODIAN PTY LIMITED	1,119,964	3.1
7 SERLETT PTY LTD	935,208	2.6
8 CHRIS ELLIS COAL SERVICES PTY LTD	932,775	2.6
9 ANDREW HENDERSON PLUMMER	744,146	2.1
10 MOBUCK INVESTMENTS PTY LTD	482,777	1.3
11 RIGI INVESTMENTS PTY LTD	475,000	1.3
12 ROBERT SLADE FORBES	400,000	1.1
13 ROGER MASSY-GREENE	332,267	0.9
14 SOCIETE GENERALE AUSTRALIA BRANCH	300,000	0.8
15 LANDPATH PTY LTD	286,798	0.8
16 LINDWAY INVESTMENTS PTY LIMITED	210,000	0.6
17 ZOELCORP PTY LTD	200,453	0.6
18 MFPH SUPERANNUATION MANAGEMENT PTY LTD	200,000	0.6
18 VELOBEN PTY LTD	200,000	0.6
18 VIEWADE PTY LIMITED	200,000	0.6
18 WESTPAC CUSTODIAN NOMINEES LIMITED	200,000	0.6
Total top 20 Ordinary Shareholders	27,264,490	75.9

## Distribution of Holders and Holdings at 29 September 2006

	Number of holders	Ordinary Shares Shares held
1 – 1,000	349	73,799
1,001 – 5,000	151	457,775
5,001 – 10,000	72	582,914
10,001 – 100,000	145	5,358,156
100,001 and over	35	29,497,382
Total	752	35,970,026

Holders of less than a marketable parcel:

–

# Shareholder Information

continued

Substantial shareholders at 29 September 2006, as disclosed in Substantial Shareholder Notices given to the Company

<b>Substantial Shareholders</b>	<b>Number of Shares</b>	<b>Proportion of Issued Shares</b>
Catherine Jeanne Morritt	5,555,000	15.4%
Robyn Elizabeth Gibson	4,306,000	12.0%
Abex Resources Australia Pty Ltd	4,474,676	12.4%
The Glen Rural Pty Ltd	3,642,889	10.1%

## UNQUOTED SECURITIES

### First Tranche Closing Performance Shares

A total of 8,000,000 unquoted first tranche closing performance shares are on issue and may only be converted into fully paid ordinary shares upon achievement of Financial Close, as approved by the shareholders at a general meeting on 24 May 2005. These first tranche closing performance shares are held by Catherine Jeanne Morritt (4,000,000) and Robyn Elizabeth Gibson (4,000,000).

### Second Tranche Closing Performance Shares

A total of 8,000,000 unquoted second tranche closing performance shares are on issue and may only be converted into fully paid ordinary shares upon the later of achievement of Financial Close or 2 years from the date of issue (24 May 2005), as approved by the shareholders at a general meeting on 24 May 2005. These second tranche closing performance shares are held by Catherine Jeanne Morritt (4,000,000) and Robyn Elizabeth Gibson (4,000,000).

### First Tranche Options

There are 3 first tranche option holders holding a total of 437,500 unquoted first tranche options on issue and these may only be converted into fully paid ordinary shares during the period commencing on the first tranche closing performance share conversion date and ending five years after the issue date (24 May 2005), as approved by the shareholders at a general meeting on 24 May 2005. Persons holding 20% or more of these first tranche options are:

- (a) Mr. Ray Soper 196,875; and
- (b) Mr. Kerry Heywood 196,875.

### Second Tranche Options

There are 3 second tranche option holders holding a total of 562,500 unquoted second tranche options on issue and these may only be converted into fully paid ordinary shares during the period commencing on the second tranche closing performance share conversion date and ending five years after the issue date (24 May 2005), as approved by the shareholders at a general meeting on 24 May 2005. Persons holding 20% or more of these second tranche options are:

- (c) Mr. Ray Soper 253,125; and
- (d) Mr. Kerry Heywood 253,125.

## MINING TENEMENTS

The Company holds the following licences and lease:

	<b>Interest</b>
Retention Licence RL 2/1988 at Grassy, King Island (8 sq kms)	100%
Exploration Licence 19/2001 at Grassy, King Island (91 sq kms)	100%
Exploration Licence 16/2002 at Grassy, King Island (18 sq kms)	100%
Lease 1M/2006 at Grassy, King Island (544 hectares)	100%

# Shareholder Information

continued

## Stock Exchange Listing

The Company's ordinary shares are listed on the Australian Stock Exchange.

## Share Registrar

Computershare Investor Services Pty Ltd      GPO Box D182  
Level 2      Perth WA 6840  
45 St Georges Terrace  
Perth WA 6000

Telephone:      +61 8 9323 2000  
1300 55 70 10 (within Australia)

Facsimile:      +61 8 9323 2033

Web site:      <http://www-au.computershare.com>

## Registered Office

Level 9, 1 York Street  
Sydney NSW 2000

Telephone: (02) 9250 0111

Facsimile: (02) 9241 6953

Email: [info@kingislandscheelite.com.au](mailto:info@kingislandscheelite.com.au)

Web site:

<http://www.kingislandscheelite.com.au>

## Auditor

KPMG  
10 Shelley Street  
Sydney NSW 2000

Telephone: (02) 9335 7000

Facsimile: (02) 9299 7077

Web site:

<http://www.kpmg.com.au>

## On-Market Buy Back

There is no on-market buy-back.

# Notes

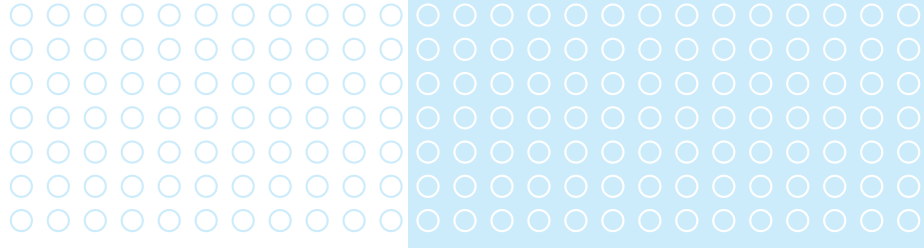


This page has been left blank intentionally

# Notes



This page has been left blank intentionally



KING ISLAND  
**SCHEELITE**

