

Island Metals Limited

ACN 143 777 397

Special Purpose Annual Report
for the year ended 30 June 2012

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Corporate information

This annual report is for Island Metals Limited (the “Company”). Unless otherwise stated, all amounts are presented in \$AUD.

Directors

Mr Paul Price (Director)

Mr Simon Lill (Director)

Mr Stephen Hewitt-Dutton (Director)

Company Secretary

Mr Stephen Hewitt-Dutton

Registered and Principal Office

Island Metals Limited

Level 24, 44 St Georges Tce,

PERTH WA 6000

Auditors

HLB Mann Judd

Level 4, 130 Stirling Street,

PERTH WA 6000

Bankers

National Australia Bank

100 St Georges Tce

PERTH WA 6000

Solicitors

Price Sierakowski Corporate

Level 24, 44 St Georges Tce

PERTH WA 6000

Contact Information

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Directors' report

The directors of Island Metals Limited submit herewith the annual financial statements of the company (the "Company") for the year ended 30 June 2012.

The names and particulars of the directors of the Company during or since the end of the year are:

Name	Particulars
Mr Paul Price	Director and Chairman Mr Price has degrees in Law and a Masters of Business Administration from the University of Western Australia. He has over twenty five years experience in corporate and commercial law and has assisted numerous public companies, large private companies and government and semi-government organisations with corporate, transaction, equity and debt structuring advice.
Mr Simon Lill	Director Mr Lill has a BSc (Pharmacol.) and a Masters of Business Administration, both from The University of Western Australia. He has a background of over 25 years of stockbroking, capital raising, management, business development and analysis for a range of small and start-up companies, both in the manufacturing and resources industries.
Mr Stephen Hewitt-Dutton	Director and Company Secretary Mr. Hewitt-Dutton has over 20 years of experience in accounting, company secretarial and corporate finance matters. He holds a Bachelor of Business from Curtin University and an affiliate of the Institute of Chartered Accountants.

The above named directors held office during and since the end of the year, unless otherwise stated.

Interests in the shares and options of the Company

The following relevant interests in shares and options of the Company were held by the Directors as at the date of this report.

Directors	Number of options over ordinary shares	Number of fully paid ordinary shares
Mr Paul Price	-	1
Mr Simon Lill	-	-
Mr Stephen Hewitt-Dutton	-	200,000

No share options of Island Metals Limited were granted to directors during or since the end of the financial year as part of their remuneration.

At the date of this report, there were no unissued ordinary shares of the Company under option.

Meetings of Directors

During the year, eight meetings of directors were held. Attendances by each director were as follows:

	Number eligible to attend	Number Attended
Mr Paul Price	6	6
Mr Simon Lill	6	6
Mr Stephen Hewitt-Dutton	6	6

Directors' report (continued)

Principal activities and review of operations

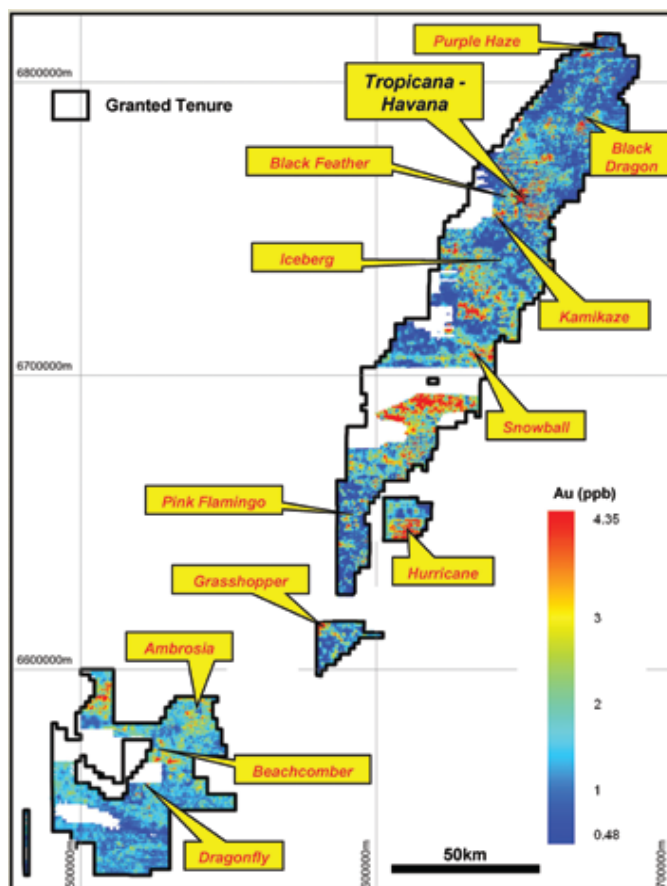
During the year, Island Metals Limited (the "Company") concluded that it was unlikely to achieve a suitable outcome as a result of its review of various manganese projects in Indonesia and West Timor. Concerns raised about tenure, geology, acquisition costs and scale resulted in a decision to consider alternative projects as a platform to move the Company towards IPO.

To that end, the Company has spent some time negotiating a series of agreements to acquire various tenements from Mark Creasy's group of companies. Sale Agreements have been prepared and are awaiting signature. The Tenement packages are known as Skull Creek, Lakes Rivers and Ponton Minerals.

The package of tenements is indicated in the Map on the next page.

The Tenements are of interest due to it being on strike with the Tropicana Gold Deposit controlled by Anglo Ashanti, and in close proximity to the recent significant Nova Discovery by Sirius Resources NL.

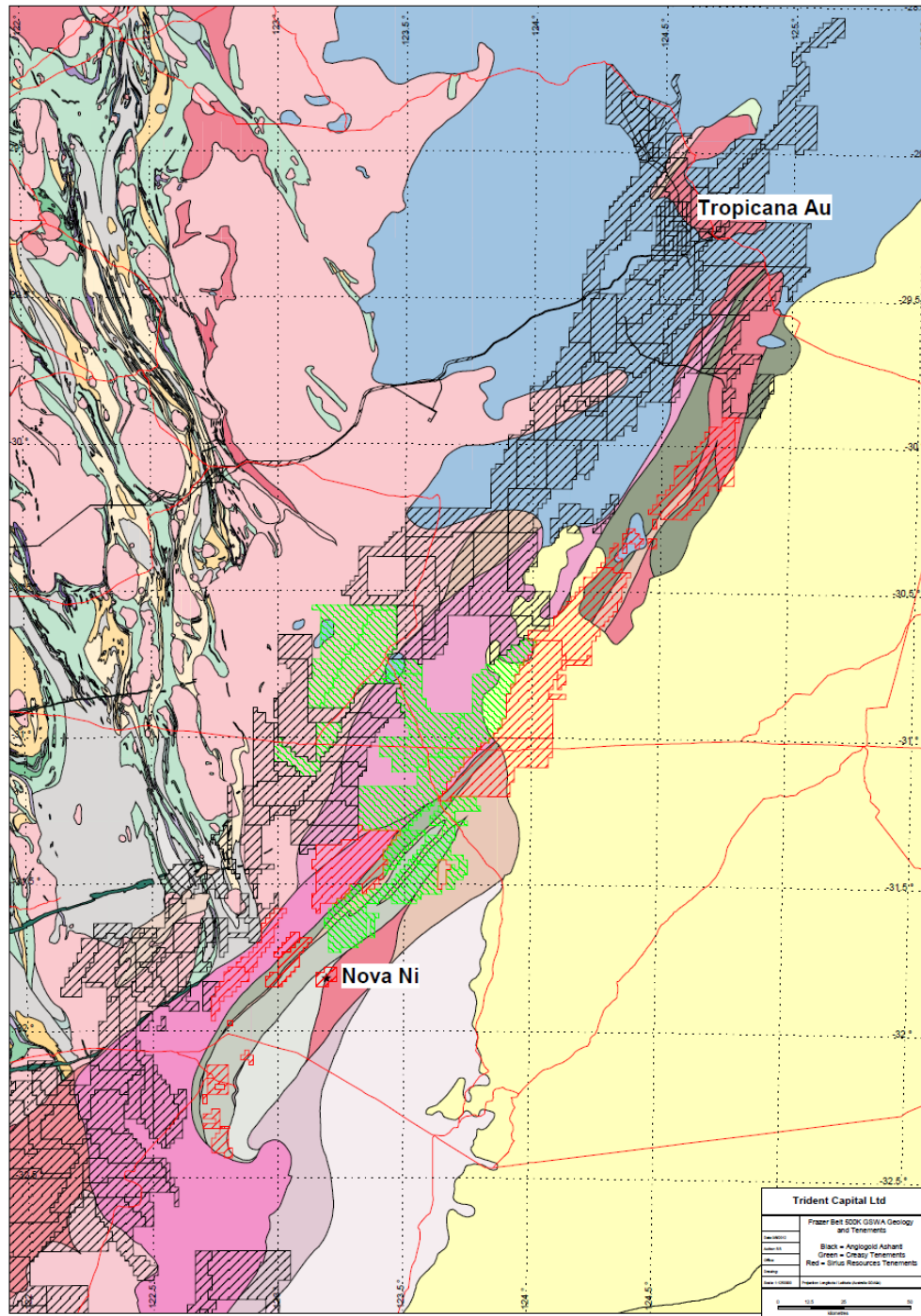
The further map below shows the Tropicana Gold Deposits in the Anglo Ashanti tenements of the Tropicana JV. The gap between the tenements is part of the package of tenements.



Map courtesy of Tropicana JV.com.au

It is believed that the Company will be in a position to move forward with a proposed IPO, with these tenements as the central package, early in 2013. However, it should be noted that the agreements have not yet been executed and the Company can only progress to IPO with these tenements once execution has occurred.

Directors' report (continued)



Package of tenements as indicated in green.

Directors' report (continued)

Operating results

The loss after tax of the Company for the year ended 30 June 2012 was \$42,451.

Significant changes in the state of affairs

There have been no significant changes in the state of affairs of the Company to the date of this report.

Significant events after balance date

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

Likely developments and expected results

Disclosure of information regarding likely developments in the operations of the entity in future financial years and the expected results of those operations is likely to result in unreasonable prejudice to the entity. Therefore, this information has not been presented in this report.

Environmental legislation

The entity is not subject to any significant environmental legislation.

Indemnifying officers or auditors

The Company has not, during or since the financial year, in respect of any person who is or has been an officer or auditor of the Company or of a related body corporate, indemnified or made any relevant agreement for indemnifying against a liability, including costs and expenses in successfully defending legal proceedings, or paid or agreed to pay a premium in respect of a contract insuring against a liability for the costs or expenses to defend legal proceedings.

Auditor independence and non-audit services

Section 307C of the Corporations Act 2001 requires our auditors, HLB Mann Judd, to provide the Directors of the Company with an Independence Declaration in relation to the audit of the annual report. This Independence Declaration is set out on page 6 and forms part of this Directors' Report for the year ended 30 June 2012.

Non-audit services

There were no non-audit services provided by the Company's auditors in the current financial year.

Signed in accordance with a resolution of the Directors.

Mr Paul Price
Director

Perth
23 October 2012

AUDITOR'S INDEPENDENCE DECLARATION

As lead auditor for the audit of the financial report of Island Metals Limited for the year ended 30 June 2012, I declare that to the best of my knowledge and belief, there have been no contraventions of:

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

This declaration is in respect of Island Metals Limited.



Perth, Western Australia
23 October 2012

N G NEILL
Partner, HLB Mann Judd

Statement of comprehensive income for the year ended 30 June 2012

	Note	2012 \$	2011 \$
Other revenue	3	24,691	11,892
Administration expenses		(1,356)	(9,056)
Accounting expenses		(3,900)	(3,600)
Audit fees		(5,000)	(5,000)
Corporate advisory expenses		(15,000)	(90,000)
Legal and professional expenses		(41,699)	(26,725)
Finance expenses		(187)	(215)
Exploration expenses		-	(21,018)
Provision for doubtful debt		-	(47,210)
Foreign exchange loss		-	(9,826)
(Loss) before income tax		(42,451)	(200,758)
Income tax benefit		-	-
(Loss) for the year from continuing operations		(42,451)	(200,758)
Other comprehensive income		-	-
Total comprehensive (loss) for the year		(42,451)	(200,758)

The accompanying notes form an integral part of this Statement of comprehensive income.

Statement of financial position as at 30 June 2012

	Note	2012 \$	2011 \$
CURRENT ASSETS			
Cash and cash equivalents	4	406,642	472,185
Trade and other receivables	5	-	-
Prepayments		2,000	2,000
GST paid		1,744	4,815
Total Current Assets		410,386	479,000
Total Assets		410,386	479,000
CURRENT LIABILITIES			
Trade and other payables		1,595	11,358
Accrued liabilities		5,000	21,400
Total Current Liabilities		6,595	32,758
Total Liabilities		6,595	32,758
Net Assets		403,791	446,242
EQUITY			
Issued capital	6	647,000	647,000
Accumulated losses		(243,209)	(200,758)
Total Equity		403,791	446,242

The accompanying notes form an integral part of this Statement of financial position.

Statement of changes in equity for the year ended 30 June 2012

	Note	Issued Capital \$	Accumulated losses \$	Total \$
Balance at registration		-	-	-
Total comprehensive loss for the year		-	(200,758)	(200,758)
Issue of shares	6	687,500	-	687,500
Costs directly attributable to issue of share capital		(40,500)	-	(40,500)
Balance at 30 June 2011		647,000	(200,758)	446,242
Total comprehensive loss for the year		-	(42,451)	(42,451)
Balance at 30 June 2012		647,000	(243,209)	403,791

The accompanying notes form an integral part of this Statement of changes in equity.

Statement of cash flows for the year ended 30 June 2012

	Note	2012 \$	2011 \$
Cash flows from operating activities			
Cash payments in the course of operations		(84,311)	(186,492)
Interest paid		<u>(187)</u>	<u>(215)</u>
Net cash flows used in operating activities		<u>(84,498)</u>	<u>(186,707)</u>
Cash flows from investing activities			
Interest received	3	<u>18,955</u>	<u>11,892</u>
Net cash flows provided by investing activities		<u>18,955</u>	<u>11,892</u>
Cash flows from financing activities			
Proceeds from issue of share capital		-	687,500
Payments for share issue costs		<u>-</u>	<u>(40,500)</u>
Net cash flows provided by financing activities		<u>-</u>	<u>647,000</u>
Net (decrease)/increase in cash and cash equivalents		(65,543)	472,185
Cash and cash equivalents at the beginning of the year		<u>472,185</u>	<u>-</u>
Cash and cash equivalents at the end of the year	4	<u>406,642</u>	<u>472,185</u>

The accompanying notes form an integral part of this Statement of cash flows.

Notes to the financial statements

NOTE 1 ADOPTION OF NEW AND REVISED AUSTRALIAN ACCOUNTING STANDARDS

In the year ended 30 June 2012, the Company has reviewed all of the new and revised Standards and Interpretations issued by the AASB that are relevant to its operations and effective for the current annual reporting period.

Standards and Interpretations adopted with no effect on the financial statements

It has been determined by the Directors that there is no impact, material or otherwise, of any other new and revised Standards and Interpretations on its business and, therefore, no change is necessary to Company accounting policies.

Standards and Interpretations in issue not yet adopted

The Company has also reviewed all new Standards and Interpretations that have been issued but are not yet effective for the year ended 30 June 2012. As a result of this review the Directors have determined that there is no impact, material or otherwise, of the new and revised Standards and Interpretations on its business and, therefore, no change is necessary to Company accounting policies.

NOTE 2 SIGNIFICANT ACCOUNTING POLICIES

Basis of preparation

These financial statements include the financial statements of the Island Metals Limited (the “Company”).

The Directors have prepared the financial statements on the basis that the Company is a non-reporting entity because there are no users dependent on general purpose financial statements. The financial statements are therefore special purpose financial statements that have been prepared in order to meet the requirements of the Corporations Act 2001.

These special purpose financial statements have been prepared in accordance with mandatory Australian Accounting Standards applicable to entities under the Corporations Act 2001 and the material accounting policies presented below. These accounting policies adopted have been consistently applied unless otherwise stated.

The financial statements have been prepared on an accruals basis and are based on historical costs.

These financial statements are presented in Australian dollars which is the Company’s functional and presentation currency.

The following significant accounting policies have been adopted in the preparation and presentation of the financial report:

a) Cash and cash equivalents

Cash comprises cash on hand and demand deposits. Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

b) Trade and other receivables

Trade receivables are measured on initial recognition at fair value and are subsequently measured at amortised cost using the effective interest rate method, less any allowance for impairment. Trade receivables are generally due for settlement within periods ranging from 15 days to 30 days.

Impairment of trade receivables is continually reviewed and those that are considered to be uncollectible are written off by reducing the carrying amount directly. An allowance account is used when there is objective evidence that the Company will not be able to collect all amounts due according to the original contractual terms. Factors considered by the Company in making this determination include known significant financial difficulties of the debtor, review of financial information and significant delinquency in making contractual payments to the Company. The impairment allowance is set equal to the difference between the carrying amount of the receivable and the present value of estimated future cash flows, discounted at the original effective interest rate. Where receivables are short-term discounting is not applied in determining the allowance.

NOTE 2 SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

b) Trade and other receivables (cont'd)

The amount of impairment loss is recognised in the statement of comprehensive income within other expenses. When a trade receivable for which an impairment allowance had been recognised becomes uncollectible in a subsequent period, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against other expenses in the statement of comprehensive income.

c) Financial instruments

Recognition and Initial Measurement

Financial instruments, incorporating financial assets and financial liabilities, are recognised when the Company becomes a party to the contractual provisions of the instrument. Trade date accounting is adopted for financial assets that are delivered within timeframes established by marketplace convention.

Financial instruments are initially measured at fair value plus transaction costs where the instrument is not classified as at fair value through profit or loss. Transaction costs related to instruments classified as at fair value through profit or loss are expensed to profit or loss immediately. Financial instruments are then classified and measured as set out below.

Classification and Subsequent Measurement

All financial instruments of the Company are subsequently measured at amortised cost, using the effective interest rate method.

Amortised Cost

Amortised cost is calculated as a) the amount at which the financial asset or liability is measured at initial recognition; b) less principal repayments; c) plus or minus the cumulative amortisation of the difference, if any, between the amount initially recognised and the maturity amount calculated using the effective interest method; and d) less any reduction for impairment.

Effective Interest Rate Method

The effective interest method is used to allocate interest income or interest expense over the relevant period and is equivalent to the rate that exactly discounts estimated future cash payments or receipts (including fees, transaction costs and other premiums or discounts) through the expected life of the financial instrument to the net carrying amount of the financial asset or financial liability. Revisions to expected future net cash flows will necessitate an adjustment to the carrying value with a consequential recognition of an income or expense in profit or loss.

Derecognition

Financial instruments are derecognised where the contractual rights to receipt of cash flows expires or the asset is transferred to another party whereby the Company no longer has any significant continuing involvement in the risks and benefits associated with the asset. Financial liabilities are derecognised where the related obligations are either discharged, cancelled or expired. The difference between the carrying value of the financial liability extinguished or transferred to another party and the fair value of consideration paid, including the transfer of non-cash assets or liabilities assumed, is recognised in profit or loss.

Fair value

Fair value is determined based on current bid prices for all quoted investments. Valuation techniques are applied to determine the fair value for all unlisted securities, including recent arm's length transactions, reference to similar instruments and option pricing models.

Impairment of financial assets

Financial assets, other than those at fair value through profit or loss, are assessed for indicators of impairment at each balance date. Financial assets are impaired where there is objective evidence that as a result of one or more events that occurred after the initial recognition of the financial asset the estimated future cash flows of the investment have been impacted. For financial assets carried at amortised cost, the amount of the impairment is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables where the carrying amount is reduced through the use of an allowance account. When a trade receivable is uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss.

NOTE 2 SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

c) Financial instruments (cont'd)

With the exception of available-for-sale equity instruments, if in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortisation cost would have been had the impairment not been recognised.

In respect of available-for-sale equity instruments, any subsequent increase in fair value after an impairment loss is recognised directly in equity.

d) Trade and other payables

Trade payables and other payables are carried at amortised cost and represent liabilities for goods and services provided to the Company prior to the end of the financial year that are unpaid and arise when the Company becomes obliged to make future payments in respect of the purchase of these goods and services. Trade and other payables are presented as current liabilities unless payment is not due within 12 months.

e) Issued capital

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

f) Impairment of other tangible and intangible assets

At each reporting date, the Company reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where the asset does not generate cash flows that are independent from other assets, the company estimates the recoverable amount of the cash-generating unit to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest company of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment annually and whenever there is an indication that the asset may be impaired.

Recoverable amount is the higher of 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 which the estimates of future cash flows have not been adjusted. If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (cash generating unit) is reduced to its recoverable amount. An impairment loss is recognised in profit or loss immediately, unless the relevant asset is carried at fair value, in which case the impairment loss is treated as a revaluation decrease.

Where an impairment loss subsequently reverses, the carrying amount of the asset (cash-generating unit) is increased to the revised estimate of its recoverable amount, but only to the extent that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (cash-generating unit) in prior years. A reversal of an impairment loss is recognised in profit or loss immediately, unless the relevant asset is carried at fair value, in which case the reversal of the impairment loss is treated as a revaluation increase.

g) Income tax

Current tax

Current tax is calculated by reference to the amount of income taxes payable to or recoverable in respect of the taxable profit or tax loss for the period. It is calculated using tax rates and tax laws that have been enacted or substantively enacted by reporting date. Current tax for current and prior periods is recognised as a liability (or asset) to the extent that it is unpaid (or refundable).

NOTE 2 SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

g) Income tax (cont'd)

Deferred tax

Deferred tax is accounted for using the liability method. Temporary differences are differences between the tax base of an asset or liability and its carrying amount in the statement of financial position. The tax base of an asset or liability is the amount attributed to that asset or liability for tax purposes.

In principle, deferred tax liabilities are recognised for all taxable temporary differences. Deferred tax assets are recognised to the extent that it is probable that sufficient taxable amounts will be available against which deductible temporary differences or unused tax losses and tax offsets can be utilised. However, deferred tax assets and liabilities are not recognised if the temporary differences giving rise to them arise from the initial recognition of assets and liabilities (other than as a result of a business combination) which affects neither taxable income nor accounting profit. Furthermore, a deferred tax liability is not recognised in relation to taxable temporary differences arising from the initial recognition of goodwill.

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries, branches and associates, and interests in joint ventures except where the Company is able to control the reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with these investments and interest are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

Deferred tax liabilities are measured at the tax rates that are expected to apply to the period(s) when the asset and liability giving rise to them are realised or settled, based on the tax rates (and tax laws) that have been enacted or substantively enacted by reporting date. The measurement of deferred tax liabilities and assets reflects the tax consequence that would follow from the manner in which the Company expects, at the reporting date, to recover or settle the carrying amount of its assets and liabilities

Deferred tax assets and liabilities are offset when they relate to income taxes levied by the same taxation authorities and the Company intends to settle its current tax assets and liabilities on a net basis.

Current and deferred tax for the period

Current and deferred tax is recognised as an expense or income in the income statement, except when it relates to items credited or debited directly to equity, in which case the deferred tax is also recognised directly in equity, or where it arises from the initial accounting for a business combination, in which case it is taken into account in the determination of goodwill or excess.

h) Research and development costs

Expenditure on research activities is recognised as an expense in the period in which it is incurred.

i) Exploration and evaluation expenditure

Exploration and evaluation expenditure incurred is accumulated in respect of each identifiable area of interest. The costs are only carried forward to the extent that they are expected to be recouped through the successful development of the area or where activities in the area have not yet reached a stage that permits reasonable assessment of the existence of economically recoverable resources and further work is intended to be performed.

Accumulated costs in relation to an abandoned area will be written off in full against the profit and loss in the year in which the decision to abandon the area is made.

When production commences, the accumulated costs for the relevant area of interest will be amortised over the life of the area according to the rate of depletion of the economically recoverable resources.

A regular review is undertaken of each area of interest to determine the appropriateness of continuing to carry forward costs in relation to that area of interest.

j) Critical accounting judgements and key sources of estimation uncertainty

The Directors make a number of estimates and assumptions in preparing general purpose financial statements. The resulting accounting estimates, will, by definition, seldom equal the related actual results. The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and future periods if relevant.

NOTE 2 SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

j) Critical accounting judgements and key sources of estimation uncertainty (cont'd)

The following key judgements were made in preparing these financial statements:

Capitalisation of exploration costs

The Company tests annually whether the exploration and evaluation expenditure incurred in identifiable areas of interest is expected to be recouped through the successful development of the area or where activities in the area have not yet reached a stage that permits reasonable assessment of the existence of reserves and further work is expected to be performed.

Revenue recognition

Revenue is measured at fair value of the consideration received or receivable. Amounts disclosed as revenue are net of returns, trade allowances, rebates and amounts collected on behalf of third parties. Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Company and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognised:

k) Interest income

Interest revenue is recognised on a time proportionate basis that takes into account the effective yield of the financial asset.

	2012		2011
	\$		\$

NOTE 3 OTHER REVENUE

Interest income	18,955	11,892
Other income	5,736	-
	<u>24,691</u>	<u>11,892</u>

NOTE 4 CASH AND CASH EQUIVALENTS

Cash at bank	<u>406,642</u>	<u>472,185</u>
	<u>406,642</u>	<u>472,185</u>

Reconciliation of loss for the year to net cash flows from operating activities

Loss for the year	(42,451)	(200,758)
Interest income received	(18,955)	(11,892)
Provision for doubtful debt	-	47,210
Increase in current receivables	3,071	(54,025)
Increase in current liabilities	(26,163)	32,758
	<u>(84,498)</u>	<u>(186,707)</u>
Net cash from operating activities	<u>(84,498)</u>	<u>(186,707)</u>

	2012 \$	2011 \$
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NOTE 5 TRADE AND OTHER RECEIVABLES

A \$50,000 USD payment was made to PT Gema Eximindo Sejahtera as an initial deposit to farm into its Timor Indonesian Manganese Projects. This amount was a refundable deposit written off during the year.

Amount owing	-	47,210
Provision for doubtful debt	-	(47,210)
	<u>-</u>	<u>-</u>

NOTE 6 ISSUED CAPITAL

Issued and paid-up capital

	No.	\$
Ordinary shares issued (net of share issue costs)	<u>32,200,001</u>	<u>647,000</u>
Reconciliation		
Balance at registration	-	-
Ordinary shares issued	32,200,001	687,500
Share issue costs	<u>-</u>	<u>(40,500)</u>
Balance at 30 June 2011	32,200,001	647,000
Movements for the year ended 30 June 2012	<u>-</u>	<u>-</u>
Balance at 30 June 2012	<u>32,200,001</u>	<u>647,000</u>

Dividends

No dividends were paid or proposed during the current year.

NOTE 7 INCOME TAX

	2012 \$	2011 \$
Income tax expense		
Numerical reconciliation between tax expense and pre-tax net profit		
(Loss) before tax	<u>(42,451)</u>	<u>(200,758)</u>
Income tax using the domestic corporation tax rate of 30%	(12,735)	(60,227)
Increase/(decrease) in income tax expense due to:		
Timing differences		3,513
Non-allowable capital items	-	-
Tax losses carried forward	<u>12,735</u>	<u>56,714</u>
Income tax expense/(benefit) on pre-tax net profit	<u>-</u>	<u>-</u>

The Company has tax losses arising in Australia of \$69,449 (2011: \$56,714) that are available indefinitely for offset against future taxable profits.

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

NOTE 8 SUBSEQUENT EVENTS

There have been no subsequent events post year end.

NOTE 9 COMMITMENTS AND CONTINGENCIES

There are no commitments or contingencies.

NOTE 10 COMPANY DETAILS

The registered office and principal place of business of the Company is:

Island Metals Limited
Level 24, 44 St Georges Tce
PERTH WA 6000

Directors' declaration

The Directors have determined that the Company is not a reporting entity and that this special purpose financial report should be prepared in accordance with the accounting policies described in Note 2 to the financial statements.

In the opinion of the Directors of the Company:

- a. the accompanying financial statements, notes and additional disclosures of the Company are in accordance with the Australian Accounting Standards including:
 - i. giving a true and fair view of the Company's financial position as at 30 June 2012 and of its performance for the year then ended; and
 - ii. complying with Australian Accounting Standards, professional reporting requirements and other mandatory requirements; 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.

This declaration is made in accordance with a resolution of the Board of Directors.

On behalf of the Board

Mr Paul Price
Director

Perth
23 October 2012

INDEPENDENT AUDITOR'S REPORT

To the members of Island Metals Limited

Report on the Financial Report

We have audited the accompanying financial report, being a special purpose financial report, of Island Metals Limited which comprises the statement of financial position as at 30 June 2012, the statement of comprehensive income, the statement of changes in equity and the statement of cash flows for the year then ended, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration for Island Metals Limited.

Directors' responsibility for the financial report

The directors of the company are responsible for the preparation of the financial report and have determined that the basis of preparation described in Note 2 to the financial report is appropriate to meet the requirements of the *Corporations Act 2001* and is appropriate to meet the needs of members. The directors' responsibility also includes such internal control as the directors determine is necessary to enable the preparation of a financial report that is free from material misstatement, whether due to fraud or error.

Auditor's responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

Our audit did not involve an analysis of the prudence of business decisions made by directors or management.

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

Independence

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

Auditor's opinion

In our opinion:

- (a) the financial report of Island Metals Limited is in accordance with the *Corporations Act 2001*, including:
- (i) giving a true and fair view of the entity's financial position as at 30 June 2012 and of its performance for the year ended on that date; and
 - (ii) complying with Australian Accounting Standards to the extent described in Note 2, and the *Corporations Regulations 2001*.

Basis of Accounting

Without modifying our opinion, we draw attention to Note 2 to the financial report, which describes the basis of accounting. The financial report has been prepared for the purpose of fulfilling the directors' financial reporting responsibilities under the *Corporations Act 2001*. As a result, the financial report may not be suitable for another purpose.



HLB MANN JUDD
Chartered Accountants



Perth, Western Australia
23 October 2012

N G NEILL
Partner

Island Metals Limited

ACN 143 777 397

Special Purpose Annual Report
for the year ended 30 June 2013

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Corporate information

This annual report is for Island Metals Limited (the “Company”). Unless otherwise stated, all amounts are presented in \$AUD.

Directors

Mr Paul Price (Director)

Mr Simon Lill (Director)

Mr Stephen Hewitt-Dutton (Director)

Company Secretary

Mr Stephen Hewitt-Dutton

Registered and Principal Office

Island Metals Limited

Level 24, 44 St Georges Tce,

PERTH WA 6000

Auditors

HLB Mann Judd

Level 4, 130 Stirling Street,

PERTH WA 6000

Bankers

National Australia Bank

100 St Georges Tce

PERTH WA 6000

Solicitors

Price Sierakowski Corporate

Level 24, 44 St Georges Tce

PERTH WA 6000

Contact Information

Ph: 08 6211 5099

Fax: 08 9218 8875

Directors' report

The directors of Island Metals Limited submit herewith the annual financial statements of the company (the "Company") for the year ended 30 June 2013.

The names and particulars of the directors of the Company during or since the end of the year are:

Name	Particulars
Mr Paul Price	Director and Chairman Mr Price has degrees in Law and a Masters of Business Administration from the University of Western Australia. He has over 25 years experience in corporate and commercial law and has assisted numerous public companies, large private companies and government and semi-government organisations with corporate, transaction, equity and debt structuring advice.
Mr Simon Lill	Director Mr Lill has a BSc (Pharmacol.) and a Masters of Business Administration, both from The University of Western Australia. He has a background of over 30 years of stockbroking, capital raising, management, business development and analysis for a range of small and start-up companies, both in the manufacturing and resources industries.
Mr Stephen Hewitt-Dutton	Director and Company Secretary Mr Hewitt-Dutton has over 20 years of experience in accounting, company secretarial and corporate finance matters. He holds a Bachelor of Business from Curtin University and is a member of the Institute of Chartered Accountants.

The above named directors held office during and since the end of the year, unless otherwise stated.

Interests in the shares and options of the Company

The following relevant interests in shares and options of the Company were held by the Directors as at the date of this report.

Directors	Number of options over ordinary shares	Number of fully paid ordinary shares
Mr Paul Price	-	25,000,001
Mr Simon Lill	-	-
Mr Stephen Hewitt-Dutton	-	200,000

No share options of Island Metals Limited were granted to directors during or since the end of the financial year as part of their remuneration.

At the date of this report, there were no unissued ordinary shares of the Company under option.

Meetings of Directors

During the year, four meetings of directors were held. Attendances by each director were as follows:

	Number eligible to attend	Number Attended
Mr Paul Price	4	4
Mr Simon Lill	4	4
Mr Stephen Hewitt-Dutton	4	4

Directors' report (continued)

Principal activities and review of operations

At the start of the year being reported the Company was hopeful of securing rights to a Tenement package from vendor Mark Creasy's group of Companies. We spent significant time pursuing these opportunities, and had contracts prepared ready for execution.

Unfortunately for Island Metals the vendor received a higher offer from an existing Company which allowed that Company to raise \$10M in equity on the strength of the Tenement package.

The Board and its corporate adviser, Trident Capital, have continued to pursue other opportunities, at no cost to the Company that would allow for an IPO event, though we have been operating in one of the most difficult IPO markets able to be recalled by most market participants.

Since the balance date we have made a minor investment in Redcliffe Resources Limited ("Redcliffe") to assist them with the development of a few small gold projects in the Western Australian goldfields. The investment total is \$200,000 which takes the form of \$150,000 in Convertible Notes which are Convertible to shares at \$0.015 and \$50,000 in equity in Redcliffe at a price of \$0.015.

The Directors continue to review opportunities that might result in a suitable liquidity event for shareholders.

Operating results

The gain after tax of the Company for the year ended 30 June 2013 was \$2,540.

Significant changes in the state of affairs

There have been no significant changes in the state of affairs of the Company to the date of this report.

Significant events after balance date

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

Likely developments and expected results

Disclosure of information regarding likely developments in the operations of the entity in future financial years and the expected results of those operations is likely to result in unreasonable prejudice to the entity. Therefore, this information has not been presented in this report.

Environmental legislation

The entity is not subject to any significant environmental legislation.

Indemnifying officers or auditors

The Company has not, during or since the financial year, in respect of any person who is or has been an officer or auditor of the Company or of a related body corporate, indemnified or made any relevant agreement for indemnifying against a liability, including costs and expenses in successfully defending legal proceedings, or paid or agreed to pay a premium in respect of a contract insuring against a liability for the costs or expenses to defend legal proceedings.

Auditor independence and non-audit services

Section 307C of the Corporations Act 2001 requires our auditors, HLB Mann Judd, to provide the Directors of the Company with an Independence Declaration in relation to the audit of the annual report. This Independence Declaration is set out on page 5 and forms part of this Directors' Report for the year ended 30 June 2013.

Directors' report (continued)

Non-audit services

There were no non-audit services provided by the Company's auditors in the current financial year.

Signed in accordance with a resolution of the Directors.



Mr Paul Price
Director

Perth
23 October 2013

AUDITOR'S INDEPENDENCE DECLARATION

As lead auditor for the audit of the financial report of Island Metals Limited for the year ended 30 June 2013, I declare that to the best of my knowledge and belief, there have been no contraventions of:

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

**Perth, Western Australia
23 October 2013**



**N G Neill
Partner**

Statement of comprehensive income for the year ended 30 June 2013

	Note	2013 \$	2012 \$
Other revenue	3	12,516	24,691
Administration expenses		(357)	(1,356)
Accounting expenses		(3,600)	(3,900)
Audit fees		(4,250)	(5,000)
Corporate advisory expenses		-	(15,000)
Legal and professional expenses		(1,471)	(41,699)
Finance expenses		(298)	(187)
Profit/(loss) before income tax		2,540	(42,451)
Income tax benefit	6	-	-
Profit/(loss) for the year from continuing operations		2,540	(42,451)
Other comprehensive income		-	-
Total comprehensive profit/(loss) for the year		2,540	(42,451)

The accompanying notes form an integral part of this Statement of comprehensive income.

Statement of financial position as at 30 June 2013

	Note	2013 \$	2012 \$
CURRENT ASSETS			
Cash and cash equivalents	4	410,132	406,642
Prepayments		2,000	2,000
GST paid/ (payable)		(1)	1,744
Total Current Assets		412,131	410,386
Total Assets		412,131	410,386
CURRENT LIABILITIES			
Trade and other payables		-	1,595
Accrued liabilities		5,800	5,000
Total Current Liabilities		5,800	6,595
Total Liabilities		5,800	6,595
Net Assets		406,331	403,791
EQUITY			
Issued capital	5	647,000	647,000
Accumulated losses		(240,669)	(243,209)
Total Equity		406,331	403,791

The accompanying notes form an integral part of this Statement of financial position.

Statement of changes in equity for the year ended 30 June 2013

	Note	Issued Capital \$	Accumulated losses \$	Total \$
Balance as at 30 June 2011		647,000	(200,758)	446,242
Total comprehensive loss for the year		-	(42,451)	(42,451)
Balance at 30 June 2012		647,000	(243,209)	403,791
Total comprehensive gain for the year		-	2,540	2,540
Balance at 30 June 2013		647,000	(240,669)	406,331

The accompanying notes form an integral part of this Statement of changes in equity.

Statement of cash flows for the year ended 30 June 2013

	Note	2013 \$	2012 \$
Cash flows from operating activities			
Cash payments in the course of operations		(8,728)	(84,311)
Interest paid		<u>(298)</u>	<u>(187)</u>
Net cash flows used in operating activities	4	<u>(9,026)</u>	<u>(84,498)</u>
Cash flows from investing activities			
Interest received	3	<u>12,516</u>	<u>18,955</u>
Net cash flows provided by investing activities		<u>12,516</u>	<u>18,955</u>
Cash flows from financing activities			
Net cash flows provided by financing activities		<u>-</u>	<u>-</u>
Net increase / (decrease) in cash and cash equivalents		3,490	(65,543)
Cash and cash equivalents at the beginning of the year		<u>406,642</u>	<u>472,185</u>
Cash and cash equivalents at the end of the year	4	<u>410,132</u>	<u>406,642</u>

The accompanying notes form an integral part of this Statement of cash flows.

Notes to the financial statements

NOTE 1 ADOPTION OF NEW AND REVISED AUSTRALIAN ACCOUNTING STANDARDS

In the year ended 30 June 2013, the Directors have reviewed all of the new and revised Standards and Interpretations issued by the AASB that are relevant to the Company's operations and effective for the current annual reporting period.

Standards and Interpretations adopted with no effect on the financial statements

It has been determined by the Directors that there is no impact, material or otherwise, of any other new and revised Standards and Interpretations on the Company's business and, therefore, no change is necessary to Company accounting policies.

Standards and Interpretations in issue not yet adopted

The Directors also reviewed all new Standards and Interpretations that have been issued but are not yet effective for the year ended 30 June 2013. As a result of this review the Directors have determined that there is no impact, material or otherwise, of the new and revised Standards and Interpretations on the Company's business and, therefore, no change is necessary to Company accounting policies.

NOTE 2 SIGNIFICANT ACCOUNTING POLICIES

Basis of preparation

These financial statements include the financial statements of Island Metals Limited (the "Company").

The Directors have prepared the financial statements on the basis that the Company is a non-reporting entity because there are no users dependent on general purpose financial statements. The financial statements are therefore special purpose financial statements that have been prepared in order to meet the requirements of the Corporations Act 2001.

These special purpose financial statements have been prepared in accordance with mandatory Australian Accounting Standards applicable to entities under the Corporations Act 2001 and the material accounting policies presented below. These accounting policies adopted have been consistently applied unless otherwise stated.

The financial statements have been prepared on an accruals basis and are based on historical costs.

These financial statements are presented in Australian dollars which is the Company's functional and presentation currency.

The following significant accounting policies have been adopted in the preparation and presentation of the financial report:

a) Cash and cash equivalents

Cash comprises cash on hand and demand deposits. Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

b) Trade and other receivables

Trade receivables are measured on initial recognition at fair value and are subsequently measured at amortised cost using the effective interest rate method, less any allowance for impairment. Trade receivables are generally due for settlement within periods ranging from 15 days to 30 days.

Impairment of trade receivables is continually reviewed and those that are considered to be uncollectible are written off by reducing the carrying amount directly. An allowance account is used when there is objective evidence that the Company will not be able to collect all amounts due according to the original contractual terms. Factors considered by the Company in making this determination include known significant financial difficulties of the debtor, review of financial information and significant delinquency in making contractual payments to the Company. The impairment allowance is set equal to the difference between the carrying amount of the receivable and the present value of estimated future cash flows, discounted at the original effective interest rate. Where receivables are short-term discounting is not applied in determining the allowance.

Notes to the financial statements

NOTE 2 SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

b) Trade and other receivables (cont'd)

The amount of impairment loss is recognised in the statement of comprehensive income within other expenses. When a trade receivable for which an impairment allowance had been recognised becomes uncollectible in a subsequent period, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against other expenses in the statement of comprehensive income.

c) Financial instruments

Recognition and Initial Measurement

Financial instruments, incorporating financial assets and financial liabilities, are recognised when the Company becomes a party to the contractual provisions of the instrument. Trade date accounting is adopted for financial assets that are delivered within timeframes established by marketplace convention.

Financial instruments are initially measured at fair value plus transaction costs where the instrument is not classified as at fair value through profit or loss. Transaction costs related to instruments classified as at fair value through profit or loss are expensed to profit or loss immediately. Financial instruments are then classified and measured as set out below.

Classification and Subsequent Measurement

All financial instruments of the Company are subsequently measured at amortised cost, using the effective interest rate method.

Amortised Cost

Amortised cost is calculated as a) the amount at which the financial asset or liability is measured at initial recognition; b) less principal repayments; c) plus or minus the cumulative amortisation of the difference, if any, between the amount initially recognised and the maturity amount calculated using the effective interest method; and d) less any reduction for impairment.

Effective Interest Rate Method

The effective interest method is used to allocate interest income or interest expense over the relevant period and is equivalent to the rate that exactly discounts estimated future cash payments or receipts (including fees, transaction costs and other premiums or discounts) through the expected life of the financial instrument to the net carrying amount of the financial asset or financial liability. Revisions to expected future net cash flows will necessitate an adjustment to the carrying value with a consequential recognition of an income or expense in profit or loss.

Derecognition

Financial instruments are derecognised where the contractual rights to receipt of cash flows expires or the asset is transferred to another party whereby the Company no longer has any significant continuing involvement in the risks and benefits associated with the asset. Financial liabilities are derecognised where the related obligations are either discharged, cancelled or expired. The difference between the carrying value of the financial liability extinguished or transferred to another party and the fair value of consideration paid, including the transfer of non-cash assets or liabilities assumed, is recognised in profit or loss.

Fair value

Fair value is determined based on current bid prices for all quoted investments. Valuation techniques are applied to determine the fair value for all unlisted securities, including recent arm's length transactions, reference to similar instruments and option pricing models.

Impairment of financial assets

Financial assets, other than those at fair value through profit or loss, are assessed for indicators of impairment at each balance date. Financial assets are impaired where there is objective evidence that as a result of one or more events that occurred after the initial recognition of the financial asset the estimated future cash flows of the investment have been impacted. For financial assets carried at amortised cost, the amount of the impairment is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate.

Notes to the financial statements

NOTE 2 SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

c) Financial instruments (cont'd)

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables where the carrying amount is reduced through the use of an allowance account. When a trade receivable is uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss.

With the exception of available-for-sale equity instruments, if in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

In respect of available-for-sale equity instruments, any subsequent increase in fair value after an impairment loss is recognised directly in equity.

d) Trade and other payables

Trade payables and other payables are carried at amortised cost and represent liabilities for goods and services provided to the Company prior to the end of the financial year that are unpaid and arise when the Company becomes obliged to make future payments in respect of the purchase of these goods and services. Trade and other payables are presented as current liabilities unless payment is not due within 12 months.

e) Issued capital

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

f) Impairment of other tangible and intangible assets

At each reporting date, the Company reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where the asset does not generate cash flows that are independent from other assets, the company estimates the recoverable amount of the cash-generating unit to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest company of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment annually and whenever there is an indication that the asset may be impaired.

Recoverable amount is the higher of 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 which the estimates of future cash flows have not been adjusted. If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (cash generating unit) is reduced to its recoverable amount. An impairment loss is recognised in profit or loss immediately, unless the relevant asset is carried at fair value, in which case the impairment loss is treated as a revaluation decrease.

Where an impairment loss subsequently reverses, the carrying amount of the asset (cash-generating unit) is increased to the revised estimate of its recoverable amount, but only to the extent that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (cash-generating unit) in prior years. A reversal of an impairment loss is recognised in profit or loss immediately, unless the relevant asset is carried at fair value, in which case the reversal of the impairment loss is treated as a revaluation increase.

Notes to the financial statements

NOTE 2 SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

g) Income tax

Current tax

Current tax is calculated by reference to the amount of income taxes payable to or recoverable in respect of the taxable profit or tax loss for the period. It is calculated using tax rates and tax laws that have been enacted or substantively enacted by reporting date. Current tax for current and prior periods is recognised as a liability (or asset) to the extent that it is unpaid (or refundable).

Deferred tax

Deferred tax is accounted for using the liability method. Temporary differences are differences between the tax base of an asset or liability and its carrying amount in the statement of financial position. The tax base of an asset or liability is the amount attributed to that asset or liability for tax purposes.

In principle, deferred tax liabilities are recognised for all taxable temporary differences. Deferred tax assets are recognised to the extent that it is probable that sufficient taxable amounts will be available against which deductible temporary differences or unused tax losses and tax offsets can be utilised. However, deferred tax assets and liabilities are not recognised if the temporary differences giving rise to them arise from the initial recognition of assets and liabilities (other than as a result of a business combination) which affects neither taxable income nor accounting profit. Furthermore, a deferred tax liability is not recognised in relation to taxable temporary differences arising from the initial recognition of goodwill.

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries, branches and associates, and interests in joint ventures except where the Company is able to control the reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with these investments and interest are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

Deferred tax liabilities are measured at the tax rates that are expected to apply to the period(s) when the asset and liability giving rise to them are realised or settled, based on the tax rates (and tax laws) that have been enacted or substantively enacted by reporting date. The measurement of deferred tax liabilities and assets reflects the tax consequence that would follow from the manner in which the Company expects, at the reporting date, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are offset when they relate to income taxes levied by the same taxation authorities and the Company intends to settle its current tax assets and liabilities on a net basis.

Current and deferred tax for the period

Current and deferred tax is recognised as an expense or income in the income statement, except when it relates to items credited or debited directly to equity, in which case the deferred tax is also recognised directly in equity, or where it arises from the initial accounting for a business combination, in which case it is taken into account in the determination of goodwill or excess.

h) Research and development costs

Expenditure on research activities is recognised as an expense in the period in which it is incurred.

i) Exploration and evaluation expenditure

Exploration and evaluation expenditure incurred is accumulated in respect of each identifiable area of interest. The costs are only carried forward to the extent that they are expected to be recouped through the successful development of the area or where activities in the area have not yet reached a stage that permits reasonable assessment of the existence of economically recoverable resources and further work is intended to be performed.

Accumulated costs in relation to an abandoned area will be written off in full against the profit and loss in the year in which the decision to abandon the area is made.

Notes to the financial statements

NOTE 2 SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

i) Exploration and evaluation expenditure (cont'd)

When production commences, the accumulated costs for the relevant area of interest will be amortised over the life of the area according to the rate of depletion of the economically recoverable resources.

A regular review is undertaken of each area of interest to determine the appropriateness of continuing to carry forward costs in relation to that area of interest.

j) Critical accounting judgements and key sources of estimation uncertainty

The Directors make a number of estimates and assumptions in preparing general purpose financial statements. The resulting accounting estimates, will, by definition, seldom equal the related actual results. The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and future periods if relevant.

The following key judgements were made in preparing these financial statements:

Capitalisation of exploration costs

The Company tests annually whether the exploration and evaluation expenditure incurred in identifiable areas of interest is expected to be recouped through the successful development of the area or where activities in the area have not yet reached a stage that permits reasonable assessment of the existence of reserves and further work is expected to be performed.

Revenue recognition

Revenue is measured at fair value of the consideration received or receivable. Amounts disclosed as revenue are net of returns, trade allowances, rebates and amounts collected on behalf of third parties. Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Company and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognised:

k) Interest income

Interest revenue is recognised on a time proportionate basis that takes into account the effective yield of the financial asset.

	2013 \$	2012 \$
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NOTE 3 OTHER REVENUE

Interest income	12,516	18,955
Other income	-	5,736
	<u>12,516</u>	<u>24,691</u>

Notes to the financial statements

	2013 \$	2012 \$
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NOTE 4 CASH AND CASH EQUIVALENTS

Cash at bank	410,132	406,642
	<u>410,132</u>	<u>406,642</u>

Reconciliation of profit/(loss) for the year to net cash flows from operating activities

Gain/(Loss) for the year	2,540	(42,451)
Interest income received	(12,516)	(18,955)
Decrease in current receivables	1,745	3,071
Decrease in current liabilities	(795)	(26,163)
	<u>(9,026)</u>	<u>(84,498)</u>
Net cash from operating activities	<u>(9,026)</u>	<u>(84,498)</u>

NOTE 5 ISSUED CAPITAL

Issued and paid-up capital	No.	\$
Ordinary shares issued (net of share issue costs)	<u>32,200,001</u>	<u>647,000</u>
Reconciliation		
Balance at 30 June 2011	32,200,001	687,500
Movements for the year ended 30 June 2012	-	-
Share issue costs	<u>-</u>	<u>(40,500)</u>
Balance at 30 June 2012	32,200,001	647,000
Movements for the year ended 30 June 2013	<u>-</u>	<u>-</u>
Balance at 30 June 2013	<u>32,200,001</u>	<u>647,000</u>

Dividends

No dividends were paid or proposed during the current year.

Notes to the financial statements

NOTE 6 INCOME TAX

Income tax expense	2013 \$	2012 \$
Numerical reconciliation between tax expense and pre-tax net profit		
Gain/(Loss) before tax	2,540	(42,451)
Income tax using the domestic corporation tax rate of 30%	762	(12,735)
Decrease/(increase) in income tax expense due to:		
Timing differences		
Tax losses carried forward/ (tax losses used)	(762)	12,735
Income tax expense/(benefit) on pre-tax net profit	-	-

The Company has tax losses arising in Australia of \$66,909 (2012: \$69,449) that are available indefinitely for offset against future taxable profits.

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

NOTE 7 SUBSEQUENT EVENTS

Since the balance date we have made a minor investment in Redcliffe Resources Limited (“Redcliffe”) to assist them with the development of a few small gold projects in the Western Australian goldfields. The investment total is \$200,000 which takes the form of \$150,000 in Convertible Notes which are Convertible to shares at \$0.015 and \$50,000 in equity in Redcliffe at a price of \$0.015.

NOTE 8 COMMITMENTS AND CONTINGENCIES

There are no commitments or contingencies.

NOTE 9 COMPANY DETAILS

The registered office and principal place of business of the Company is:

Island Metals Limited
Level 24, 44 St Georges Tce
PERTH WA 6000

Directors' declaration

The Directors have determined that the Company is not a reporting entity and that this special purpose financial report should be prepared in accordance with the accounting policies described in Note 2 to the financial statements.

In the opinion of the Directors of the Company:

- a. the accompanying financial statements, notes and additional disclosures of the Company are in accordance with the Australian Accounting Standards including:
 - i. giving a true and fair view of the Company's financial position as at 30 June 2013 and of its performance for the year then ended; and
 - ii. complying with Australian Accounting Standards, professional reporting requirements and other mandatory requirements; 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.

This declaration is made in accordance with a resolution of the Board of Directors.

On behalf of the Board



Mr Paul Price
Director

Perth
23 October 2013

INDEPENDENT AUDITOR'S REPORT

To the members of Island Metals Limited

Report on the Financial Report

We have audited the accompanying financial report of Island Metals Limited ("the company"), which comprises the statement of financial position as at 30 June 2013, the statement of comprehensive income, the statement of changes in equity and the statement of cash flows for the year then ended, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration for Island Metals Limited.

Directors' responsibility for the financial report

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

In Note 1, the directors also state, in accordance with Accounting Standard AASB 101: *Presentation of Financial Statements*, that the financial report complies with International Financial Reporting Standards.

Auditor's responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the company's preparation and fair presentation of the financial report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

Our audit did not involve an analysis of the prudence of business decisions made by directors or management.

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

Independence

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

Auditor's opinion

In our opinion:

- (a) the financial report of Island Metals Limited is in accordance with the *Corporations Act 2001*, including:
 - (i) giving a true and fair view of the entity's financial position as at 30 June 2013 and of its performance for the year ended on that date; and
 - (ii) complying with Australian Accounting Standards and the *Corporations Regulations 2001*; and
- (b) the financial report also complies with International Financial Reporting Standards as disclosed in Note 1.

Basis of accounting

Without modifying our opinion, we draw attention to Note 2 to the financial report, which describes the basis of accounting. The financial report has been prepared for the purpose of fulfilling the directors' financial reporting responsibilities under the Corporations Act 2001. As a result, the financial report may not be suitable for another purpose.



HLB Mann Judd
Chartered Accountants



N G Neill
Partner

Perth, Western Australia
23 October 2013

Island Metals Limited

ACN 143 777 397

Special Purpose Annual Report
for the year ended 30 June 2014

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Corporate information

This annual report is for Island Metals Limited (the “Company”). Unless otherwise stated, all amounts are presented in \$AUD.

Directors

Mr Paul Price

Mr KC Dennis Ong

Mr Stephen Hewitt-Dutton

Company Secretary

Mr Stephen Hewitt-Dutton

Registered and Principal Office

Island Metals Limited

Level 24, 44 St Georges Terrace

PERTH WA 6000

Auditors

HLB Mann Judd

Level 4, 130 Stirling Street

PERTH WA 6000

Bankers

National Australia Bank

100 St Georges Terrace

PERTH WA 6000

Solicitors

Price Sierakowski Corporate

Level 24, 44 St Georges Terrace

PERTH WA 6000

Contact Information

Ph: 08 6211 5099

Fax: 08 9218 8875

Directors' report

The directors of Island Metals Limited submit herewith the annual financial statements of the company (the "Company") for the year ended 30 June 2014.

The names and particulars of the directors of the Company during or since the end of the year are:

Name	Particulars
Mr Paul Price	Director and Chairman Mr Price has degrees in Law and a Masters of Business Administration from the University of Western Australia. He has over 25 years experience in corporate and commercial law and has assisted numerous public companies, large private companies and government and semi-government organisations with corporate, transaction, equity and debt structuring advice.
Mr KC Dennis Ong	Director (Appointed 11 April 2014) Mr Ong has over 26 years of extensive and diverse experience in corporate finance and business advisory to corporations in Australia and East Asia. Mr Ong is a Director of Trident Management Services Pty Ltd. He is an alumni from Deakin University, Victoria, holding a Bachelor of Commerce degree and is a Certified Practicing Accountant.
Mr Stephen Hewitt-Dutton	Director and Company Secretary Mr. Hewitt-Dutton has over 20 years of experience in accounting, company secretarial and corporate finance matters. He holds a Bachelor of Business from Curtin University and is an affiliate of the Institute of Chartered Accountants.
Mr Simon Lill	Director (Resigned 11 April 2014) Mr Lill has a BSc (Pharmacol.) and a Masters of Business Administration, both from The University of Western Australia. He has a background of over 30 years of stockbroking, capital raising, management, business development and analysis for a range of small and start-up companies, both in the manufacturing and resources industries.

The above named directors held office during and since the end of the year, unless otherwise stated.

Interests in the shares and options of the Company

The following relevant interests in shares and options of the Company were held by the Directors as at the date of this report.

Directors	Number of options over ordinary shares	Number of fully paid ordinary shares
Mr Paul Price	-	25,000,001
Mr KC Dennis Ong	-	-
Mr Stephen Hewitt-Dutton	-	200,000

No share options of Island Metals Limited were granted to directors during or since the end of the financial year as part of their remuneration.

At the date of this report, there were no unissued ordinary shares of the Company under option.

Meetings of Directors

During the year, four meetings of directors were held. Attendances by each director were as follows:

	Number eligible to attend	Number Attended
Mr Paul Price	4	4
Mr Simon Lill	4	4
Mr Stephen Hewitt-Dutton	4	4
Mr KC Dennis Ong	-	-

Directors' report (continued)

Principal activities and review of operations

The Board and its corporate adviser, Trident Capital, have continued to pursue opportunities, at no cost to the Company that would allow for an IPO event, though the IPO market continues to be difficult.

The Company made a minor investment in Redcliffe Resources to assist them with the development of a few small gold projects in the Western Australian goldfields. The investment total was \$201,000 which took the form of \$150,000 in Convertible Notes which are Convertible to shares at \$0.015 and \$51,000 in equity in Redcliffe at a price of \$0.015. At the date of this report the amount remains outstanding.

The Directors continue to review opportunities that might result in a suitable liquidity event for shareholders.

Operating results

The loss after tax of the Company for the year ended 30 June 2014 was \$19,428.

Significant changes in the state of affairs

There have been no significant changes in the state of affairs of the Company to the date of this report.

Significant events after balance date

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

Likely developments and expected results

Disclosure of information regarding likely developments in the operations of the entity in future financial years and the expected results of those operations is likely to result in unreasonable prejudice to the entity. Therefore, this information has not been presented in this report.

Environmental legislation

The entity is not subject to any significant environmental legislation.

Indemnifying officers or auditors

The Company has not, during or since the financial year, in respect of any person who is or has been an officer or auditor of the Company or of a related body corporate, indemnified or made any relevant agreement for indemnifying against a liability, including costs and expenses in successfully defending legal proceedings, or paid or agreed to pay a premium in respect of a contract insuring against a liability for the costs or expenses to defend legal proceedings.

Auditor independence and non-audit services

Section 307C of the Corporations Act 2001 requires our auditors, HLB Mann Judd, to provide the Directors of the Company with an Independence Declaration in relation to the audit of the annual report. This Independence Declaration is set out on page 4 and forms part of this Directors' Report for the year ended 30 June 2014.

Non-audit services

There were no non-audit services provided by the Company's auditors in the current financial year.

Signed in accordance with a resolution of the Directors.

Mr Paul Price
Director



Perth
15 October 2014



Accountants | Business and Financial Advisers

Auditor's Independence Declaration

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

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

Perth, Western Australia
15 October 2014

A handwritten signature in blue ink, appearing to read 'Norman G. Neill'.

N G Neill
Partner, HLB Mann Judd

Statement of comprehensive income for the year ended 30 June 2014

	Note	2014 \$	2013 \$
Other revenue	3	14,796	12,516
Administration expenses		(2,271)	(357)
Accounting expenses		(6,000)	(3,600)
Audit fees		(5,000)	(4,250)
Impairment of available for sale assets		(20,400)	-
Legal and professional expenses		(275)	(1,471)
Finance expenses		(278)	(298)
(Loss)/profit before income tax		(19,428)	2,540
Income tax benefit		-	-
(Loss)/profit for the year from continuing operations		(19,428)	2,540
Other comprehensive income		-	-
Total comprehensive (loss)/profit for the year		(19,428)	2,540

The accompanying notes form an integral part of this Statement of comprehensive income.

Statement of financial position as at 30 June 2014

	Note	2014 \$	2013 \$
CURRENT ASSETS			
Cash and cash equivalents	4	209,853	410,132
Available for sale assets	5	30,600	-
Convertible note	6	150,000	-
Prepayments		2,000	2,000
GST paid		450	(1)
Total Current Assets		392,903	412,131
Total Assets		392,903	412,131
CURRENT LIABILITIES			
Accrued liabilities		6,000	5,800
Total Current Liabilities		6,000	5,800
Total Liabilities		6,000	5,800
Net Assets		386,903	406,331
EQUITY			
Issued capital	6	647,000	647,000
Accumulated losses		(260,097)	(240,669)
Total Equity		386,903	406,331

The accompanying notes form an integral part of this Statement of financial position.

Statement of changes in equity for the year ended 30 June 2014

	Note	Issued Capital \$	Accumulated losses \$	Total \$
Balance at 30 June 2012		647,000	(243,209)	403,791
Total comprehensive profit for the year		-	2,540	2,540
Balance at 30 June 2013		647,000	(240,669)	406,331
Total comprehensive loss for the year		-	(19,428)	(19,428)
Balance at 30 June 2014		647,000	(260,097)	386,903

The accompanying notes form an integral part of this Statement of changes in equity.

Statement of cash flows for the year ended 30 June 2014

	Note	2014 \$	2013 \$
Cash flows from operating activities			
Cash payments in the course of operations		(13,797)	(8,728)
Interest paid		<u>(278)</u>	<u>(298)</u>
Net cash flows used in operating activities		<u>(14,075)</u>	<u>(9,026)</u>
Cash flows from investing activities			
Purchase of investments		(201,000)	-
Interest received	3	<u>14,796</u>	<u>12,516</u>
Net cash flows provided by investing activities		<u>(186,204)</u>	<u>12,516</u>
Cash flows from financing activities			
Proceeds from issue of share capital		-	-
Payments for share issue costs		<u>-</u>	<u>-</u>
Net cash flows provided by financing activities		<u>-</u>	<u>-</u>
Net (decrease)/increase in cash and cash equivalents		(200,279)	3,490
Cash and cash equivalents at the beginning of the year		<u>410,132</u>	<u>406,642</u>
Cash and cash equivalents at the end of the year	4	<u>209,853</u>	<u>410,132</u>

The accompanying notes form an integral part of this Statement of cash flows.

Notes to the financial statements

NOTE 1 ADOPTION OF NEW AND REVISED AUSTRALIAN ACCOUNTING STANDARDS

In the year ended 30 June 2014, the Company has reviewed all of the new and revised Standards and Interpretations issued by the AASB that are relevant to its operations and effective for the current annual reporting period.

Standards and Interpretations adopted with no effect on the financial statements

It has been determined by the Directors that there is no impact, material or otherwise, of any other new and revised Standards and Interpretations on the Company and, therefore, no change is necessary to Company accounting policies.

Standards and Interpretations in issue not yet adopted

The Company has also reviewed all new Standards and Interpretations that have been issued but are not yet effective for the year ended 30 June 2014. As a result of this review the Directors have determined that there is no impact, material or otherwise, of the new and revised Standards and Interpretations on the Company and, therefore, no change is necessary to Company accounting policies.

NOTE 2 SIGNIFICANT ACCOUNTING POLICIES

Basis of preparation

These financial statements include the financial statements of the Island Metals Limited (the “Company”).

The Directors have prepared the financial statements on the basis that the Company is a non-reporting entity because there are no users dependent on general purpose financial statements. The financial statements are therefore special purpose financial statements that have been prepared in order to meet the requirements of the Corporations Act 2001.

These special purpose financial statements have been prepared in accordance with mandatory Australian Accounting Standards applicable to entities under the Corporations Act 2001 and the material accounting policies presented below. These accounting policies adopted have been consistently applied unless otherwise stated.

The financial statements have been prepared on an accruals basis and are based on historical costs.

These financial statements are presented in Australian dollars which is the Company’s functional and presentation currency.

The following significant accounting policies have been adopted in the preparation and presentation of the financial report:

a) Cash and cash equivalents

Cash comprises cash on hand and demand deposits. Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

b) Trade and other receivables

Trade receivables are measured on initial recognition at fair value and are subsequently measured at amortised cost using the effective interest rate method, less any allowance for impairment. Trade receivables are generally due for settlement within periods ranging from 15 days to 30 days.

Impairment of trade receivables is continually reviewed and those that are considered to be uncollectible are written off by reducing the carrying amount directly. An allowance account is used when there is objective evidence that the Company will not be able to collect all amounts due according to the original contractual terms. Factors considered by the Company in making this determination include known significant financial difficulties of the debtor, review of financial information and significant delinquency in making contractual payments to the Company. The impairment allowance is set equal to the difference between the carrying amount of the receivable and the present value of estimated future cash flows, discounted at the original effective interest rate. Where receivables are short-term discounting is not applied in determining the allowance.

NOTE 2 SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

b) Trade and other receivables (cont'd)

The amount of impairment loss is recognised in the statement of comprehensive income within other expenses. When a trade receivable for which an impairment allowance had been recognised becomes uncollectible in a subsequent period, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against other expenses in the statement of comprehensive income.

c) Financial instruments

Recognition and Initial Measurement

Financial instruments, incorporating financial assets and financial liabilities, are recognised when the Company becomes a party to the contractual provisions of the instrument. Trade date accounting is adopted for financial assets that are delivered within timeframes established by marketplace convention.

Financial instruments are initially measured at fair value plus transaction costs where the instrument is not classified as at fair value through profit or loss. Transaction costs related to instruments classified as at fair value through profit or loss are expensed to profit or loss immediately. Financial instruments are then classified and measured as set out below.

Classification and Subsequent Measurement

All financial instruments of the Company are subsequently measured at amortised cost, using the effective interest rate method.

Amortised Cost

Amortised cost is calculated as a) the amount at which the financial asset or liability is measured at initial recognition; b) less principal repayments; c) plus or minus the cumulative amortisation of the difference, if any, between the amount initially recognised and the maturity amount calculated using the effective interest method; and d) less any reduction for impairment.

Effective Interest Rate Method

The effective interest method is used to allocate interest income or interest expense over the relevant period and is equivalent to the rate that exactly discounts estimated future cash payments or receipts (including fees, transaction costs and other premiums or discounts) through the expected life of the financial instrument to the net carrying amount of the financial asset or financial liability. Revisions to expected future net cash flows will necessitate an adjustment to the carrying value with a consequential recognition of an income or expense in profit or loss.

Derecognition

Financial instruments are derecognised where the contractual rights to receipt of cash flows expires or the asset is transferred to another party whereby the Company no longer has any significant continuing involvement in the risks and benefits associated with the asset. Financial liabilities are derecognised where the related obligations are either discharged, cancelled or expired. The difference between the carrying value of the financial liability extinguished or transferred to another party and the fair value of consideration paid, including the transfer of non-cash assets or liabilities assumed, is recognised in profit or loss.

Fair value

Fair value is determined based on current bid prices for all quoted investments. Valuation techniques are applied to determine the fair value for all unlisted securities, including recent arm's length transactions, reference to similar instruments and option pricing models.

Impairment of financial assets

Financial assets, other than those at fair value through profit or loss, are assessed for indicators of impairment at each balance date. Financial assets are impaired where there is objective evidence that as a result of one or more events that occurred after the initial recognition of the financial asset the estimated future cash flows of the investment have been impacted. For financial assets carried at amortised cost, the amount of the impairment is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables where the carrying amount is reduced through the use of an allowance account. When a trade receivable is uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss.

NOTE 2 SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

c) Financial instruments (cont'd)

With the exception of available-for-sale equity instruments, if in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortisation cost would have been had the impairment not been recognised.

In respect of available-for-sale equity instruments, any subsequent increase in fair value after an impairment loss is recognised directly in equity.

d) Trade and other payables

Trade payables and other payables are carried at amortised cost and represent liabilities for goods and services provided to the Company prior to the end of the financial year that are unpaid and arise when the Company becomes obliged to make future payments in respect of the purchase of these goods and services. Trade and other payables are presented as current liabilities unless payment is not due within 12 months.

e) Issued capital

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

f) Impairment of other tangible and intangible assets

At each reporting date, the Company reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where the asset does not generate cash flows that are independent from other assets, the company estimates the recoverable amount of the cash-generating unit to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest company of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment annually and whenever there is an indication that the asset may be impaired.

Recoverable amount is the higher of 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 which the estimates of future cash flows have not been adjusted. If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (cash generating unit) is reduced to its recoverable amount. An impairment loss is recognised in profit or loss immediately, unless the relevant asset is carried at fair value, in which case the impairment loss is treated as a revaluation decrease.

Where an impairment loss subsequently reverses, the carrying amount of the asset (cash-generating unit) is increased to the revised estimate of its recoverable amount, but only to the extent that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (cash-generating unit) in prior years. A reversal of an impairment loss is recognised in profit or loss immediately, unless the relevant asset is carried at fair value, in which case the reversal of the impairment loss is treated as a revaluation increase.

g) Income tax

Current tax

Current tax is calculated by reference to the amount of income taxes payable to or recoverable in respect of the taxable profit or tax loss for the period. It is calculated using tax rates and tax laws that have been enacted or substantively enacted by reporting date. Current tax for current and prior periods is recognised as a liability (or asset) to the extent that it is unpaid (or refundable).

NOTE 2 SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

g) Income tax (cont'd)

Deferred tax

Deferred tax is accounted for using the liability method. Temporary differences are differences between the tax base of an asset or liability and its carrying amount in the statement of financial position. The tax base of an asset or liability is the amount attributed to that asset or liability for tax purposes.

In principle, deferred tax liabilities are recognised for all taxable temporary differences. Deferred tax assets are recognised to the extent that it is probable that sufficient taxable amounts will be available against which deductible temporary differences or unused tax losses and tax offsets can be utilised. However, deferred tax assets and liabilities are not recognised if the temporary differences giving rise to them arise from the initial recognition of assets and liabilities (other than as a result of a business combination) which affects neither taxable income nor accounting profit. Furthermore, a deferred tax liability is not recognised in relation to taxable temporary differences arising from the initial recognition of goodwill.

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries, branches and associates, and interests in joint ventures except where the Company is able to control the reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with these investments and interest are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

Deferred tax liabilities are measured at the tax rates that are expected to apply to the period(s) when the asset and liability giving rise to them are realised or settled, based on the tax rates (and tax laws) that have been enacted or substantively enacted by reporting date. The measurement of deferred tax liabilities and assets reflects the tax consequence that would follow from the manner in which the Company expects, at the reporting date, to recover or settle the carrying amount of its assets and liabilities

Deferred tax assets and liabilities are offset when they relate to income taxes levied by the same taxation authorities and the Company intends to settle its current tax assets and liabilities on a net basis.

Current and deferred tax for the period

Current and deferred tax is recognised as an expense or income in the income statement, except when it relates to items credited or debited directly to equity, in which case the deferred tax is also recognised directly in equity, or where it arises from the initial accounting for a business combination, in which case it is taken into account in the determination of goodwill or excess.

h) Research and development costs

Expenditure on research activities is recognised as an expense in the period in which it is incurred.

i) Exploration and evaluation expenditure

Exploration and evaluation expenditure incurred is accumulated in respect of each identifiable area of interest. The costs are only carried forward to the extent that they are expected to be recouped through the successful development of the area or where activities in the area have not yet reached a stage that permits reasonable assessment of the existence of economically recoverable resources and further work is intended to be performed.

Accumulated costs in relation to an abandoned area will be written off in full against the profit and loss in the year in which the decision to abandon the area is made.

When production commences, the accumulated costs for the relevant area of interest will be amortised over the life of the area according to the rate of depletion of the economically recoverable resources.

A regular review is undertaken of each area of interest to determine the appropriateness of continuing to carry forward costs in relation to that area of interest.

j) Critical accounting judgements and key sources of estimation uncertainty

The Directors make a number of estimates and assumptions in preparing general purpose financial statements. The resulting accounting estimates, will, by definition, seldom equal the related actual results. The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and future periods if relevant.

NOTE 2 SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

j) Critical accounting judgements and key sources of estimation uncertainty (cont'd)

The following key judgements were made in preparing these financial statements:

Capitalisation of exploration costs

The Company tests annually whether the exploration and evaluation expenditure incurred in identifiable areas of interest is expected to be recouped through the successful development of the area or where activities in the area have not yet reached a stage that permits reasonable assessment of the existence of reserves and further work is expected to be performed.

Revenue recognition

Revenue is measured at fair value of the consideration received or receivable. Amounts disclosed as revenue are net of returns, trade allowances, rebates and amounts collected on behalf of third parties. Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Company and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognised:

k) Interest income

Interest revenue is recognised on a time proportionate basis that takes into account the effective yield of the financial asset.

	2014 \$	2013 \$
--	------------	------------

NOTE 3 OTHER REVENUE

Interest income	14,796	12,516
	<u>14,796</u>	<u>12,516</u>

NOTE 4 CASH AND CASH EQUIVALENTS

Cash at bank	209,853	410,132
	<u>209,853</u>	<u>410,132</u>

Reconciliation of loss for the year to net cash flows from operating activities

Gain/Loss for the year	(19,428)	2,540
Interest income shown as investing activities	(14,796)	(12,516)
Impairment of available for sale assets	20,400	-
(Increase)/Decrease in current receivables	(451)	1,745
Increase/(Decrease) in current liabilities	200	(795)
	<u>(14,075)</u>	<u>(9,026)</u>
Net cash from operating activities	<u>(14,075)</u>	<u>(9,026)</u>

	2014 \$	2013 \$
--	------------	------------

NOTE 5 AVAILABLE FOR SALE ASSETS

Shares - Redcliffe Resources Limited at cost	51,000	-
Impairment	(20,400)	-
Carrying value at 30 June 2014	<u>30,600</u>	<u>-</u>

NOTE 6 CONVERTIBLE NOTE

Redcliffe Resources Limited	150,000	-
	<u>150,000</u>	<u>-</u>

NOTE 7 ISSUED CAPITAL

Issued and paid-up capital	No.	\$
Ordinary shares issued (net of share issue costs)	<u>32,200,001</u>	<u>647,000</u>
Reconciliation		
Balance at 30 June 2012	32,200,001	687,500
Movements for the year ended 30 June 2013	<u>-</u>	<u>-</u>
Balance at 30 June 2013	32,200,001	647,000
Movements for the year ended 30 June 2014	<u>-</u>	<u>-</u>
Balance at 30 June 2014	<u>32,200,001</u>	<u>647,000</u>

Dividends

No dividends were paid or proposed during the current year.

NOTE 8 INCOME TAX

Income tax expense	2014 \$	2013 \$
Numerical reconciliation between tax expense and pre-tax net profit		
Loss/(gain) before tax	(19,428)	2,540
Income tax using the domestic corporation tax rate of 30%	(5,828)	762
Increase/(decrease) in income tax expense due to:		
Timing differences		
Non-allowable capital items	-	-
Tax losses carried forward	5,828	(762)
Income tax expense/(benefit) on pre-tax net profit	<u>-</u>	<u>-</u>

The Company has tax losses arising in Australia of \$86,337 (2013: \$66,909) that are available indefinitely for offset against future taxable profits.

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

NOTE 9 SUBSEQUENT EVENTS

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

NOTE 10 COMMITMENTS AND CONTINGENCIES

There are no commitments or contingencies.

NOTE 11 COMPANY DETAILS

The registered office and principal place of business of the Company is:

Island Metals Limited
Level 24, 44 St Georges Tce
PERTH WA 6000

Directors' declaration

The Directors have determined that the Company is not a reporting entity and that this special purpose financial report should be prepared in accordance with the accounting policies described in Note 2 to the financial statements.

In the opinion of the Directors of the Company:

- a. the accompanying financial statements, notes and additional disclosures of the Company are in accordance with the Australian Accounting Standards including:
 - i. giving a true and fair view of the Company's financial position as at 30 June 2014 and of its performance for the year then ended; and
 - ii. complying with Australian Accounting Standards, professional reporting requirements and other mandatory requirements; 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.

This declaration is made in accordance with a resolution of the Board of Directors.

On behalf of the Board



Mr Paul Price
Director

Perth
15 October 2014



Accountants | Business and Financial Advisers

Independent auditor's report

To the members of Island Metals Limited

Report on the Financial Report

We have audited the accompanying financial report, being a special purpose financial report, of Island Metals Limited ("the company"), which comprises the statement of financial position as at 30 June 2014, the statement of comprehensive income, the statement of changes in equity and the statement of cash flows for the year then ended, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration.

Directors' responsibility for the financial report

The directors of the company are responsible for the preparation of the financial report and have determined that the basis of preparation described in Note 2 to the financial report is appropriate to meet the requirements of *Corporations Act 2001* and is appropriate to meet the needs of members. The directors' responsibility also includes such internal control as the directors determine necessary to enable the preparation of a financial report that free from material misstatement, whether due to fraud or error.

Auditor's responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the company's preparation and fair presentation of the financial report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

Our audit did not involve an analysis of the prudence of business decisions made by directors or management.

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

Independence

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

Auditor's opinion

In our opinion:

- (a) the financial report of Island Metals Limited is in accordance with the *Corporations Act 2001*, including:
 - (i) giving a true and fair view of the entity's financial position as at 30 June 2014 and of its performance for the year ended on that date; and
 - (ii) complying with Australian Accounting Standards to the extent described in Note 2, and the *Corporations Regulations 2001*.



Accountants | Business and Financial Advisers

Basis of accounting

Without modifying our opinion, we draw attention to Note 2 to the financial report, which describes the basis of accounting. The financial report has been prepared for the purpose of fulfilling the directors' financial reporting responsibilities under the Corporations Act 2001. As a result, the financial report may not be suitable for another purpose.

A handwritten signature in blue ink that reads 'HLB Mann Judd'.

HLB Mann Judd
Chartered Accountants

A handwritten signature in blue ink that reads 'N G Neill'.

N G Neill
Partner

Perth, Western Australia
15 October 2014