DIRECTORS' REPORT

The Directors present their report together with the financial report of GTN Resources Limited (the Company) and of the consolidated entity, being the Company and its controlled entities, for the year ended 30 June 2004 and the auditors' report thereon.

DIRECTORS

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

Raymond Soper (Independent Non Executive Chairman)
B.Sc.(Otago), MBA (NSW), MAusIMM
Experience - Ray joined the Board in June 1992. He is a mining engineer with more than 30 years experience in mining operations, mineral economics, investment management, strategic management consulting and merchant banking. Ray is a Director of PlatSearch NL, Huntley Investment Company Ltd, Misty Mountain Gold Ltd, Buka Minerals Ltd and Samag Ltd.

Anthony Haggarty (Non Executive Director)
MComm, ACPA, FAICD
Experience - Tony joined the Board in March 1998. He has more than 25 years experience in all areas of coal mining in Australia and overseas. Tony is a Director of Excel Coal Limited, Illawarra Coke Company Pty Ltd, Envirospheres Pty Ltd and Port Kembla Coal Terminal Pty Ltd.

Kerry Heywood (Executive Director)
BE Mining (Qld), MBA (Qld)
Experience - Kerry joined the Board in August 2000. He is a mining engineer with more than 20 years experience in the mining and resource finance areas. He has managed GTN's mining and exploration activities since March 1999 and was appointed Chief Executive – Gems in April 2000 with full responsibility for the gem business.

DIRECTORS' MEETINGS

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

	DIRECTORS MEETINGS	
	Number eligible to attend	**Number attended**
Raymond Soper	6	6
Anthony Haggarty	6	6
Kerry Heywood	6	6

- The Audit Committee met twice during the year. All directors attended the audit committee meetings.

PRINCIPAL ACTIVITIES

The principal activities of the consolidated entity during the financial year were alluvial sapphire mining on a limited basis including ongoing rehabilitation.

There were no other significant changes to in the nature of the activities of the consolidated entity during the year.

REVIEW AND RESULTS OF OPERATIONS

The consolidated net loss from ordinary activities was $417,165 (2003: $4,437).

A detailed review of operations is included in the Chairman's Report and is considered an integral component of this report.

DIVIDENDS

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

STATE OF AFFAIRS

- The Directors announced on 31 October 2003 the termination of the merger agreement between the Company and ZBB Energy Inc (ZBB). Under the terms of that agreement ZBB was required to raise $10m in new equity but was unable to do so within the time required. All merger costs deferred during the transaction were written off during the year.
- The Wean Joint Venture resumed limited mining activities during the third quarter of the financial year. Any increase in production is dependent on an improvement in demand for rough sapphire stock.

There were no other significant changes in the state of affairs of the Company during the financial year.

ENVIRONMENTAL REGULATION

The consolidated entity's operations in New South Wales are subject to the Mining Act (1992) and the Environmental Protection Act (1999). The performance of the consolidated entity in relation to the regulations imposed was as follows:

(a) Sapphire operations
Progressive rehabilitation continued on sapphire mining areas at Inverell and Subera. Rehabilitation was completed to land owners' satisfaction on several past exploration licences and the process of Department of Mineral Resources approval for guarantee release is underway.

(b) Base Metal Operations
The Environmental Protection Agency (EPA) issued a request in November for further analysis of the mill site at Herberton in Queensland, the location of a former tin operation of the Company. Following testing, it was determined that further rehabilitation of the site was required. The Company has yet to finalise the rectification required with the EPA and local council. Although a reliable estimate of the contingent liability is not yet available, the Directors believe that the cost of such work should not exceed $50,000.

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

Performance against compliance requirements
Based upon the results of enquires made, the directors are not aware of any significant breaches during the period covered by this report.

SIGNIFICANT EVENTS AFTER BALANCE DATE

King Island Project

The Company entered into an option agreement with the owners of Australian Tungsten Pty Ltd (ATPL) whereby it may acquire 100% of that company. ATPL owns 100% of the King Island Scheelite Project on King Island, Tasmania. The King Island project contains the remaining resources of the King Island scheelite mine, which operated between 1917 and 1990, as well as possible extensions to the known ore bodies and other tungsten exploration opportunities. Scheelite is an ore of tungsten.

The option agreement requires the Company to fund a Pre-Feasibility Study to the extent of $250,000. This study will address the upgrading of resource information to JORC standard, confirm the marketing outlook and address all key factors affecting the possible project development. The study is expected to take 3-6 months.

If the Company decides to exercise the option to acquire ATPL, it will require shareholder approval for the acquisition.

International Financial Reporting Standards
For reporting periods beginning on or after 1 January 2005, the consolidated entity must comply with International Financial Reporting Standards (IFRS) as issued by the Australian Accounting Standards Board.

SIGNIFICANT EVENTS AFTER BALANCE DATE (Continued)

International Financial Reporting Standards (Continued)
This financial report has been prepared in accordance with Australian accounting standards and other financial reporting requirements (Australian GAAP). The differences between Australian GAAP and IFRS identified to date as potentially having a significant effect on the consolidated entity's financial performance and financial position are summarised below. This summary should not be taken as an exhaustive list of all the differences between Australian GAAP and IFRS. No attempt has been made to identify all disclosure, presentation or classification differences that would affect the manner in which transactions or events are presented.

The consolidated entity has not quantified the effects of the differences discussed below. Accordingly, there can be no assurances that the financial performance and financial position as disclosed in this financial report would not be significantly different if determined in accordance with IFRS. Regulatory bodies that promulgate Australian GAAP and IFRS have significant ongoing projects that could affect the differences between Australian GAAP and IFRS described below and the impact of these differences relative to the company's financial reports in the future.

The potential impact on the consolidated entity's financial performance and financial position of the adoption of IFRS, including system upgrades and other implementation costs which may be incurred, has not been quantified as at the transition date of 1 July 2004 due to the short time between finalisation of the IFRS standards and the date of preparing this report. The impact on future years will depend on the particular circumstances prevailing in those years, however no significant impacts are expected from the conversion to IFRS.

The impact of exposure draft ED 6 *Exploration for and Evaluation of Mineral Resources* on the consolidated entity's accounting policy for the treatment of exploration and evaluation expenditure cannot be determined until the final standard is issued by the International Accounting Standards Board in September 2004, and the equivalent Australian accounting standard is subsequently issued by the Australian Accounting Standards Board.

Recent announcements from the AASB indicate that the IASB will amend ED6 and will grandfather Australia's existing areas of interest method of accounting for exploration and evaluation expenditure. Until these proposed changes are enacted it is not possible to determine the potential impact in respect to extractive industries.

Other than the matters discussed above, there has not arisen in the interval between the end of the financial year and the date of this report any item, transaction or event of a material and unusual nature likely, in the opinion of the Directors of the Company, to affect significantly the operations of the consolidated entity, the results of those operations, or the state of affairs of the consolidated entity, in future financial years.

LIKELY DEVELOPMENTS AND EXPECTED RESULTS

The director will continue to pursue alternatives for the Company with a view to improving the share price and operating results.

Further information about the likely developments in the operations of the consolidated entity and the expected results in future financial years has not been included in this report because disclosure of the information would be likely to result in unreasonable prejudice to the consolidated entity.

DIRECTORS AND EXECUTIVE OFFICERS EMOLUMENTS

The Board is responsible for setting remuneration policies and packages applicable to the Board members and senior executives of the Company. The broad remuneration policy is to ensure the remuneration package properly reflects the person's duties and responsibilities and level of performance.

Executive directors and senior executives may receive bonuses based on the achievement of specific goals related to the performance of the consolidated entity. Options are also issued. The ability to exercise the options is conditional on the Company achieving certain performance hurdles. Non executive directors do not receive any performance-related remuneration.

DIRECTORS AND EXECUTIVE OFFICERS EMOLUMENTS (Continued)

Details of the nature and amount of each major element of the emoluments of each director of the Company are:

The Company and consolidated entity	Consulting Fees	Directors Fees	Total
Mr R. Soper	-	20,000	20,000
Mr A. Haggarty	-	11,600	11,600
Mr K Heywood	97,492	-	97,492

Executive Officers
The Company Secretary, Mr N Jones, received no remuneration in respect of this position during the current financial year.

OPTIONS

No options have been issued during or since the end of the previous financial year. There are no options on issue at year end.

DIRECTORS' INTERESTS

The relevant interest of each director in the Company's shares as notified to the Australian Stock Exchange in accordance with S250G(1) of the Corporations Act 2001, at the date of this report is as follows:

	Ord. Shares
AJ Haggarty	3,392,889
RJ Soper	62,512
KP Heywood	-

DIRECTORS' INDEMNIFICATION

During the financial year, the Company arranged insurance to indemnify each director holding office during the year (as listed in the table above) against any liabilities for costs and expenses incurred by them as a result of any third party proceedings arising from their conduct as directors of the Company, other than conduct involving a wilful breach of duty in relation to the Company. The terms of the policies prohibit disclosure of the details of the amount of the insurance cover, the nature thereof and the premium paid.

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

A.J. Haggarty
Director

27 September 2004

STATEMENTS OF FINANCIAL PERFORMANCE FOR THE YEAR ENDED 30 JUNE 2004

	Note	**Consolidated**		**The Company**	
		2004	*2003*	*2004*	*2003*
		$	*$*	*$*	*$*
Revenue from ordinary activities	2	1,341,905	3,979,930	605,020	3,563,473
Expenses from ordinary activities	3	(1,756,811)	(3,952,269)	(601,473)	(1,523,326)
Borrowing costs expense		(2,259)	(32,098)	(2,259)	(349)
(Loss)/Profit from ordinary activities before income tax expense	3	(417,165)	(4,437)	1,288	2,039,798
Income tax expense relating to ordinary activities	5	-	-	-	-
Net (loss)/profit		(417,165)	(4,437)	1,288	2,039,798
Basic loss per share – cents	6	(0.02)	(0.0002)		
Diluted loss per share – cents	6	(0.02)	(0.0002)		

The statements of financial performance are to be read in conjunction with the notes to the financial statements set out on pages 8 to 30.

GTN RESOURCES LIMITED
ABN 40 004 681 734
AND CONTROLLED ENTITIES

STATEMENTS OF FINANCIAL POSITION AS AT 30 JUNE 2004

	Note	**Consolidated**		**The Company**	
		2004	***2003***	***2004***	***2003***
		$	***$***	***$***	***$***
CURRENT ASSETS					
Cash assets	8	2,418,848	2,343,249	2,034,072	1,670,106
Receivables	9	22,517	66,718	629	16,161
Inventories	10	421,663	1,036,838	-	-
Other	17	266	267	-	-
TOTAL CURRENT ASSETS		2,863,294	3,447,072	2,034,701	1,686,267
NON-CURRENT ASSETS					
Receivables	9	158,211	204,922	512,320	708,934
Investments accounted for using the equity method	14	100,000	100,000	-	-
Other financial assets	11	-	-	100,006	100,004
Plant and equipment	15	36,233	133,702	-	-
Exploration and development expenditure	16	249,276	249,276	-	-
Other	17	1,850	1,850	870	870
TOTAL NON-CURRENT ASSETS		545,570	689,750	613,196	809,808
TOTAL ASSETS		3,408,864	4,136,822	2,647,897	2,496,075
CURRENT LIABILITIES					
Payables	18	87,871	401,707	84,398	313,951
Provisions	21	229,109	226,066	-	-
TOTAL CURRENT LIABILITIES		316,980	627,773	84,398	313,951
NON-CURRENT LIABILITIES					
Payables	18	-	-	509,648	129,561
TOTAL NON-CURRENT LIABILITIES		-	-	509,648	129,561
TOTAL LIABILITIES		316,980	627,773	594,046	443,512
NET ASSETS		3,091,884	3,509,049	2,053,851	2,052,563
EQUITY					
Contributed equity	22	13,121,707	13,121,707	13,121,707	13,121,707
Accumulated losses	23	(10,029,823)	(9,612,658)	(11,067,856)	(11,069,144)
TOTAL EQUITY		3,091,884	3,509,049	2,053,851	2,052,563

The statements of financial position are to be read in conjunction with the notes to the financial statements set out on pages 8 to 30.

GTN RESOURCES LIMITED
ABN 40 004 681 734
AND CONTROLLED ENTITIES

STATEMENTS OF CASH FLOWS
FOR THE YEAR ENDED 30 JUNE 2004

	Note	**Consolidated**		**The Company**	
		2004	***2003***	***2004***	***2003***
		$	***$***	***$***	***$***
CASH FLOWS FROM OPERATING ACTIVITIES					
Cash receipts in the course of operations		1,226,953	2,360,221	-	90,010
Cash payments in the course of operations		(1,318,915)	(1,845,291)	(815,494)	(132,668)
Management fees received		-	-	500,000	250,000
Interest received		119,085	59,973	105,020	6,972
Borrowing costs paid		(2,259)	(349)	(2,259)	(349)
Net cash provided by/(used in) operating activities	7(b)	24,864	574,554	(212,733)	213,965
CASH FLOWS FROM INVESTING ACTIVITIES					
Proceeds from sale of plant and equipment		54,371	641,466	-	-
Payment for controlled entities	12	-	(24,998)	-	-
Payments for joint venture interests	13	-	(65,521)	-	-
Payments for plant and equipment		(3,636)	-	-	-
Proceeds from sale of controlled entity	12	-	1,000,000	-	1,000,000
Net cash provided by investing activities		50,735	1,550,947	-	1,000,000
CASH FLOWS FROM FINANCING ACTIVITIES					
Repayment of borrowings		-	(666,143)	-	-
Loans from/(to) controlled entities		-	-	576,699	433,142
Net cash (used in) / provided by financing activities		-	(666,143)	576,699	433,142
Net increase/(decrease) in cash held		75,599	1,459,358	363,966	1,647,107
Cash at the beginning of the financial year		2,343,249	883,891	1,670,106	22,999
Cash at the end of the financial year	7(a)	2,418,848	2,343,249	2,034,072	1,670,106

The statements of cash flows are to be read in conjunction with the notes to the financial statements set out on pages 8 to 30.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies which have been adopted in the preparation of this report are:

Basis of preparation

The financial report is a general purpose financial report that has been prepared in accordance with Accounting Standards, Urgent Issues Group Consensus Views, other authoritative pronouncements of the Australian Accounting Standards Board and the Corporation Act 2001.

The financial statements have been prepared on the basis of historical cost and, except where stated, do not take into account changing money values or fair values of non-current assets.

These accounting policies have been consistently applied by each entity in the consolidated entity and, except where there is a change in accounting policy, are consistent with those of the prior year.

Principles of consolidation

Controlled entities
The financial statements of controlled entities are included from the date control commences until the date control ceases.

Outside interests in equity and the results of entities that are controlled are shown as a separate item in the consolidated financial statements.

Associates
Associates are those entities, other than partnerships, over which the consolidated entity exercises significant influence and which are not intended for sale in the near future.

In the consolidated financial statements investments in associates are accounted for using equity accounting principles. Investments in associates are carried at the lower of the equity accounted amount and recoverable amount. The consolidated entity's share of the associates' net profit or loss is recognised in the consolidated statement of financial performance from the date significant influence commences until the date significant influence ceases. Other movements in reserves are recognised directly in the consolidated reserves.

Joint venture operations
The consolidated entity's interest in unincorporated joint ventures are brought to account by including its proportionate share of the joint venture's assets, liabilities and expenses and the consolidated entity's revenue from the sale of output on a line by line basis, from the date joint control commences to the date joint control ceases.

Transactions eliminated on consolidation
All inter-Company balances and transactions between entities in the consolidated entity, including any unrealised profits or losses, have been eliminated in full on consolidation.

Unrealised gains resulting from transactions with associates and joint ventures including those relating to contributions of non-monetary assets on establishments are eliminated to the amount of the consolidated entity's interest. Unrealised gains relating to associates are eliminated against the carrying amount of the investment. Unrealised losses are eliminated in the same way as unrealised gains, unless they evidence a recoverable amount impairment.

Revenue recognition

Revenues are recognised at fair value of the consideration received net of the amount of goods and services tax (GST) payable to the taxation authority. Exchanges of goods or services of the same nature and value without any cash consideration are not recognised as revenue.

Sale of goods
Revenue from sale of goods is recognised (net of returns, discounts and allowances) when control of the goods passes to the customer.

Revenue recognition (continued)

Rendering of services
Revenue from the rendering of a service is recognised upon the delivery of the service to the customers.

Interest
Interest income is recognised as it accrues.

Sale of non current assets
The gross proceeds of non-current asset sales are included as revenue at the date control passes to the buyer, usually when an unconditional contract of sale is signed.

The gain or loss on disposal is calculated as the difference between the carrying amount of the asset at the time of disposal and the net proceeds on disposal.

Goods and services tax

Revenues, expenses and assets are recognised net of the amount of GST, except where the amount of GST incurred is not recoverable from the Australian Taxation Office (ATO). In these circumstances the GST is recognised as part of the cost of acquisition of the asset or as part of an item of expense.

Receivables and payables are stated with the amount of GST included.

The net amount of GST recoverable from or payable to the ATO is included as a current asset or liability in the statement of financial position.

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

Foreign Currency

Transactions
Foreign currency transactions during the year are converted to Australian currency at the rates of exchange applicable at the dates of the transactions. Amounts receivable and payable in foreign currencies at balance date are converted at the rate of exchange ruling at that date.

Exchange differences relating to amounts payable and receivable in foreign currencies are brought to account as exchange gains or losses in the statement of financial performance in the financial year in which the exchange rates change.

Hedges
The consolidated entity does not hedge foreign currency exposure.

Borrowing costs

Borrowing costs include interest, amortisation of discounts or premiums relating to borrowings, amortisation of ancillary costs incurred in connection with arrangement of borrowings, foreign exchange losses net of hedged amounts on borrowings and lease finance charges.

Borrowing costs are expensed as incurred.

Taxation

The consolidated entity adopts the income statement liability method of tax-effect accounting. Income tax expense is calculated on operating profit or loss before income tax adjusted for permanent differences between taxable and accounting income. The tax effect of timing difference, which arise from tax and accounting purposes, is carried forward in the statements of financial position as a future income tax benefit or a provision for deferred income tax.

Future income tax benefits are not brought to account unless realisation of the asset is assured beyond reasonable doubt. Future income tax benefits in relation to tax losses are not brought to account unless there is virtual certainty of realisation of the benefit.

Earning per share

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

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

Acquisition of assets

All assets acquired including property, plant and equipment and intangibles, other than goodwill, are initially recorded at their cost of acquisition at the date of acquisition, being the fair value of the consideration provided plus incidental costs directly attributable to the acquisition. When equity instruments are issued as consideration, their market price at the date of acquisition is used as fair value. Transaction costs arising on the issue of equity instruments are recognised directly in equity subject to the extent of proceeds received, otherwise expensed.

Where settlement of any part of cash consideration is deferred, the amounts payable are recorded at their present value, discounted at the rate applicable to the consolidated entity if a similar borrowing where obtained from an independent financier under comparable terms and conditions. The unwinding of the discount is treated as interest expense.

The cost of assets constructed or internally generated by the consolidated entity, other than goodwill, include the cost of materials and direct labour. Directly attributable overheads and other incidental costs are also capitalised to the asset. Borrowing costs are capitalised to qualifying assets.

Expenditure, including that on internally generated assets, other than research and development costs, is only recognised as an asset when the entity controls future economic benefits as a result of the costs incurred, it is probable that the future economic benefits will eventuate, and the costs can be measured reliably. Costs attributable to feasibility and alternative approach assessments are expensed as incurred.

Subsequent additional costs
Costs incurred on assets subsequent to initial acquisition are capitalised when it is probable that future economic benefits in excess of the originally assessed performance of the asset will flow to the consolidated entity in future years. Costs that do not meet the criteria for capitalisation are expensed as incurred.

Use and revisions of accounting estimates

The preparation of the financial report requires the making of estimation and assumptions that affect the recognised amounts of assets, liabilities, revenue and expenses and the disclosure of contingent liabilities. The estimate and associated assumptions are based on historical experience and other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgement about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates. The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates is revised if he revision affect only that period, or in the period of the revision and future periods if he revision affects both current and future periods.

Receivables

All trade debtors are recognised at the amount receivable, as they are due for settlement no more than 30 days from the date of recognition. Collectability of trade debtors is reviewed on an ongoing basis and specific provision is made for any doubtful accounts. Debts that are known to be uncollectable are written off.

Inventories

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

Cost includes direct labour, direct variable costs and allocated production overheads necessary to bring inventories to their present location and production base on normal operating capacity of the production facilities.

Mining activities
The cost of mining inventories is determined using a weight average basis.

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

Investments

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

Associates

In the Company's financial statements investments in associates are carried at the lower of cost and recoverable amount. Income from dividends is brought to account in the statement of financial performance.

Other entities
Investments in other unlisted companies are carried at the lower of cost, and recoverable amount, being a director's valuation based on market values at the time of the valuation. Dividends are brought to account as they are received.

Leased assets

Leases under which the consolidated entity assumes substantially all the risks and benefits are classified as finance leases. Other leases are classified as operating leases.

A lease asset and a lease liability equal to the present value of the minimum lease payments are recorded at the inception of the lease.

Lease payments are allocated between the reduction of the lease liability and the lease interest expense for the period.

Operating Leases

Payment made under operating leases are expensed on a straight line basis over the term of the lease, except where an alternative basis is more representative of the pattern of benefits to be derived from the leased property.

Exploration and Development Expenditure

Exploration and development expenditure incurred is accumulated in respect of each separate area of interest. These 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 which permits reasonable assessment of the existence of economically recoverable reserves.

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

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.

Recoverable amount of non current assets valued on a cost basis

The carrying amounts of non current assets valued on the cost basis, other than exploration and evaluation expenditure carried forward, are reviewed to determine whether they are in excess of their recoverable amount at reporting date. If the carrying amount of a non-current asset exceeds its recoverable amount, the asset is written down to the lower amount. The write down is expensed in the reporting period in which it occurs.

Where a group of assets working together supports the generation of cash inflows, recoverable amount is assessed in relation to that group of assets.

In assessing recoverable amounts of non current assets the relevant cash flows have not been discounted to their present value, except where stated.

Depreciation and amortisation

Complex assets
Major items of plant and equipment comprising a number of components that have different useful lives, are accounted for as separate assets and separately depreciated.

Depreciation and amortisation
All assets, including intangibles, have limited useful lives and are depreciated/amortised using the straight line method over their estimated useful lives. Exploration and development expenditure is amortised over the life of the economically recoverable reserves. Finance lease assets are amortised over the term of the relevant lease, or where it is likely the consolidated entity will obtain ownership of the asset, the life of the asset.

Assets are depreciated or amortised from the date of acquisition or, in respect of internally constructed assets, from the time an asset is completed and held ready for use.

Depreciation and amortisation rates and methods are reviewed annually for appropriateness. When changes are made, adjustments are recognised prospectively in current and future periods only. Depreciation and amortisation are expensed, except to the extent that they are included in the carrying amount of another asset as an allocation of production overheads.

The depreciation and amortisation rates used for each class of assets are as follows:

	Depreciation Rate	
Class of Fixed Asset	2004	2003
Plant and Equipment	20 %	20 %
Leased Plant and Equipment	-	20 %

Payables

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

Provisions

A provision is recognised when there is a legal, equitable or constructive obligation as a result of a past event and it is probable that a future sacrifice of economic benefits will be required to set the obligations, the timing or extent of which is uncertain.

In the effect is material, a provision is determined by discounting the expected future cash flow required to settle the obligation at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability, except where noted below. The unwinding of the discount is treated as part of the expense related to the particular provision.

When some or all the economic benefits required to settle a provision are expected to be recovered from a third party, the recovery receivable is recognised as an asset when it is probable that the recovery will be received and is measured on a basis consistent with the measurement of the related provision.

In the statement of financial performance, the expense recognised in respect of a provision is presented net if the entity:

- has a legally recognised right to set-off the recovery receivable and the provision; and
- intends to settle on a net basis, or to realise the asset and settle the provision simultaneously.

Provisions (continued)

Assumptions have been made as to the remaining life of existing sites based on studies conducted by independent technical advisors.

Restoration
Provisions are made for estimated costs relating to the remediation of soil, groundwater and untreated waste as soon as the need is identified.

Provisions are made for mine site rehabilitation and restoration on an incremental basis during the course of mine life (which includes the mine closure phase). Provisions are determined on an undiscounted basis and include the following costs: reclamation, plant closure, waste site closure and monitoring activities. These costs have been determined based on current costs, current legal requirements and current technology. Changes in estimates are dealt with on a prospective basis.

Significant uncertainties exist as to the amount of restoration obligations that will be incurred due to the following factors:

- uncertainty as to the remaining life of existing operating sites; and
- the impact of changes in environmental legislation

Comparative Figures

Where appropriate comparative figures have been adjusted to conform to changes in presentation for the current financial year.

	Consolidated		The Company	
	2004	*2003*	*2004*	*2003*
	$	$	$	$
NOTE 2 – REVENUE FROM ORDINARY ACTIVITIES				
Revenue from operating activities				
Sales of goods	1,166,682	2,081,862	-	-
Rendering of services	-	55,014	-	-
Other revenue:				
Management fees received from controlled entities	-	-	500,000	250,000
Interest received				
Other Parties	119,085	59,973	105,020	6,972
Other revenue	1,767	141,615	-	81,821
Revenue from outside operating activities				
Proceeds on disposal of plant and equipment	54,371	641,466	-	-
Proceeds on disposal of controlled entity	-	1,000,000	-	1,000,000
Intercompany loan forgiven	-	-	-	2,224,680
Total revenue from ordinary activities	1,341,905	3,979,930	605,020	3,563,473

NOTE 3 – PROFIT/(LOSS) FROM ORDINARY ACTIVITIES BEFORE INCOME TAX

(a) Expenses from ordinary activities were arrived at as follows:

	Consolidated 2004 $	Consolidated 2003 $	The Company 2004 $	The Company 2003 $
Changes in inventories of finished goods	645,916	913,152	-	-
Consumables	37,829	144,383	-	-
Consultants	298,831	560,125	183,444	404,467
Due Diligence	308,183	-	308,183	-
Employee benefits	98,119	-		-
Insurance	52,598	-	52,298	-
Payments to subcontractors	-	280,600	-	-
Equipment hire & contracting	19,361	99,928	-	6,068
Repairs & maintenance	21,038	47,569	-	1,558
Royalties	69,701	169,895	-	-
Depreciation, amortisation and write downs	76,696	665,970	-	64,854
Written down value of plant and equipment sold	24,409	371,333	-	-
Carrying value of controlled entity disposed	-	598,274	-	922,552
Other expenses from ordinary activities	104,130	101,040	57,548	123,827
	1,756,811	3,952,269	601,473	1,523,326

	Consolidated		The Company	
	2004	*2003*	*2004*	*2003*
	$	*$*	*$*	*$*
(b) Profit/(loss) from ordinary activities before income tax has been arrived at after charging/(crediting) the following items:				
Cost of goods sold	719,186	821,261	-	-
Borrowing costs:				
– Other persons	2,259	349	2,259	349
– Finance lease charges	-	31,749	-	-
Total borrowing costs	2,259	32,098	2,259	349
Depreciation of plant and equipment	76,627	249,144	-	-
Amortisation of non-current assets:				
– Leased plant & equipment	-	282,920	-	-
– Capitalised exploration expenditure	-	133,906	-	-
Total depreciation and amortisation	76,627	665,970	-	-
Rental expense on operating leases	24,429	70,952	-	5,168
Government royalties paid	-	27,248	-	-
Landowner royalties paid	69,701	142,647	-	-
Loss on disposal of investments	-	11,668	-	-
Write down of non current assets				
– Plant & equipment	69	194,865	-	-
– Capitalised development	-	127,334	-	-
Write down of inventory	10,926	(297,566)	-	-
Profit on disposal of non-current assets:				
– Plant and equipment	29,962	498,988	-	-
– Controlled entity	-	401,726	-	77,448

NOTE 4 – AUDITORS' REMUNERATION

Audit Services:				
Auditors of the Company – KPMG				
Audit and review of financial reports	32,000	32,000	32,000	32,000
Other services:				
Auditors of the Company – KPMG				
Investigating accountants report	143,608	16,500	143,608	16,500

	Consolidated		The Company	
	2004	*2003*	*2004*	*2003*
	$	*$*	*$*	*$*
NOTE 5 – INCOME TAX EXPENSE				
Prima facie income tax expense/(benefit) calculated at 30% on profit/(loss) from ordinary activities:	(125,150)	(1,331)	386	611,939
Increase in income tax expense due to:				
– Non deductible legal costs	92,455	88,499	92,455	88,499
– Other non-deductible items	31	62,536	-	9,010
– Deferred tax assets not recognised	32,664	12,436	-	(84)
	-	162,140	93,227	709,364
Decrease in income tax expense due to:				
– Intercompany loan forgiven	-	-	-	(667,404)
– Profit on sale of controlled entity	-	(120,518)	-	(23,234)
– Other non-assessable items	-	(5,190)	-	-
– Deferred tax assets recognised	-	(36,432)	(93,227)	(18,726)
Income tax (benefit)/ expense attributable to operating profit/(loss)	-	-	-	-
Deferred tax assets not brought to account at 30%. The potential future income tax benefit arising from tax losses and timing differences has not been recognised as an asset because recovery of the tax losses is not virtually certain and recovery of timing differences is not assured beyond any reasonable doubt.				
- Timing Differences	26,041	26,041	16,488	16,488
- Tax Losses	1,285,804	1,253,140	1,169,203	1,262,430
	1,311,845	1,279,181	1,185,691	1,278,918

The potential further income tax benefit will only be obtained if;

(i) the Company derives future assessable income of a nature and an amount sufficient to enable the benefit be realised;

(ii) the Company continues to comply with the conditions for deductibility imposed by the law; and

(iii) no changes in tax legislation adversely affect the Company in realising benefit.

NOTE 6 – EARNINGS PER SHARE

	Consolidated	
	2004	*2003*
Earnings reconciliation	*$*	*$*
Net loss	(417,165)	(4,437)
Basic and diluted earnings	(417,165)	(4,437)
Weighted average number of shares used as a denominator		
Number of shares for basic and diluted earnings per share	19,689,713	19,689,713

NOTE 7 – NOTES TO THE STATEMENTS OF CASH FLOWS

(a) Reconciliation of cash

For the purposes of the statements of cash flows, cash includes all cash on hand and at bank and short-term deposits at call, net of outstanding bank overdrafts. Cash as at the end of the financial year as shown in the statements of cash flows is reconciled to the related items in the statements of financial position as follows:

	Consolidated 2004 $	Consolidated 2003 $	The Company 2004 $	The Company 2003 $
Cash assets	2,418,848	2,343,249	2,034,072	1,670,106

(b) Reconciliation of profit/(loss) from ordinary activities after income tax to net cash provided by/(used in) operating activities

	Consolidated 2004 $	Consolidated 2003 $	The Company 2004 $	The Company 2003 $
Profit/(loss) from ordinary activities after income tax	(417,165)	(4,437)	1,288	2,039,798
Add/(less) items classified as financing/ investing activities:				
Profit on sale of non current assets	(29,962)	(498,988)	-	-
Profit on disposal of controlled entity	-	(401,726)	-	(77,448)
Loss on disposal of investments	-	11,668	-	-
Forgiveness of intercompany loan	-	-	-	(2,224,680)
Finance lease charges	-	31,749	-	-
Add/(less) non-cash items:				
– Depreciation / Amortisation	76,627	665,970	-	-
– (Decrease) in provisions	3,043	(424,946)	-	-
– Discount on acquisition	-	(17,299)	-	-
– Write down of plant and equipment	69	194,865	-	-
– Write down of capitalised development	-	127,334	-	-
– Write down/(up) of inventory	10,926	(297,566)	-	-
Changes in assets and liabilities adjusted for the effect of purchase and disposal of controlled entities during the financial year:				
– Decrease in receivables	90,912	195,243	15,532	193,693
– Decrease in inventories	604,249	870,879	-	-
– Decrease in other assets	1	-	-	-
– Increase/(decrease) in payables	(313,836)	121,808	(229,553)	282,602
Net cash provided by/(used in) operating activities	24,864	574,554	(212,733)	213,965

	Consolidated		The Company	
	2004	*2003*	*2004*	*2003*
	$	*$*	*$*	*$*

NOTE 8 – CASH ASSETS

Cash at bank and on hand	2,418,848	2,343,249	2,034,072	1,670,106

NOTE 9 – RECEIVABLES

CURRENT				
Trade debtors	21,846	56,718	-	6,161
Security deposits	-	10,000	-	10,000
Other debtors	671	-	629	-
	22,517	66,718	629	16,161
NON CURRENT				
Loans to controlled entities	-	-	512,320	708,934
Security deposits	158,211	204,922	-	-
	158,211	204,922	512,320	708,934

Further details of loans to controlled entities are set out in Note 30.

NOTE 10 – INVENTORIES

CURRENT				
Finished goods - at cost	421,663	1,036,838	-	-

NOTE 11 – OTHER FINANCIAL ASSETS

NON-CURRENT				
- shares in controlled entities at cost	-	-	6	4
- investment in associate at cost	-	-	128,947	128,947
provision for diminution	-	-	(28,947)	(28,947)
	-	-	100,000	100,000
Total	-	-	100,006	100,004

NOTE 12 - PARTICULARS IN RELATION TO CONTROLLED ENTITIES

	Country Of Incorporation	*Percentage Owned* 2004	*Percentage Owned* 2003
		%	%
The Company:			
GTN Resources Limited	Australia		
Controlled entities of the Company:			
Queensland Polymetallic Resources Pty Ltd	Australia	100	100
Seraph Sapphires Pty Ltd	Australia	100	100
GTN Tanzania Pty Ltd	Australia	100	100
GTN Operations Pty Ltd	Tanzania	65	65
Great Northern NSW Pty Ltd	Australia	100	100
Eastern Feeder Holdings Pty Ltd	Australia	100	100
Puriri Pty Ltd	Australia	100	100

The results from ordinary activities of companies acquired during the year have been included in the consolidated profit from the date of acquisition. The results from ordinary activities of companies disposed of during the year have been included in the consolidated result until the date of disposal.

Acquisition of entities

During the previous financial year the Company acquired 100% of the ordinary share capital of Puriri Pty Ltd for $25,000.

	Consolidated 2004	Consolidated 2003	The Company 2004	The Company 2003
	$	$	$	$
Consideration	-	25,000	-	-
Cash acquired	-	(2)	-	-
Outflow of cash	-	24,998	-	-
Fair Value of net assets of entity acquired :				
Cash assets	-	2	-	-
Investments	-	20,000	-	-
Goodwill	-	4,998	-	-
Consideration	-	25,000	-	-

Disposal of entities

During the previous financial year the Company disposed of its interest in Great Northern Mining Pty Ltd for $1,000,000. There was no other cash flow impact arising from the transaction. The details of the disposal are as follows:

	Consolidated 2004	Consolidated 2003	The Company 2004	The Company 2003
Consideration (cash)	-	1,000,000	-	1,000,000
Net assets of entity disposed of				
- prepayments	-	27,421	-	-
- other financial assets	-	-	-	922,552
- plant and equipment	-	228,854	-	-
- capitalised development costs	-	349,769	-	-
- security deposits	-	111,656	-	-
- rehabilitation	-	(119,426)	-	-
Profit/(loss) on disposal	-	401,726	-	77,448
	%	%	%	%
Interest held after disposal	-	-	-	-

NOTE 13 – INTEREST IN JOINT VENTURE OPERATIONS

The consolidated entity holds a 74.5% interest in the Eastern Feeder Joint Venture (EFJV). The principal activities of the joint venture are sapphire mining and exploration. For the year ended 30 June 2004 the contribution of the EFJV to the operating profit of the consolidated entity was a loss of $45,900 (2003: loss of $1,973).

The consolidated entity also holds a 50% interest in the Weean Joint Venture. For the year ended 30 June 2004, the contribution to the consolidated entity's operating profit was $101,916 (2003: loss of $1,557)

In 2002 the consolidated entity held a 50% interest in the Australian Sapphire Joint Venture (ASJV). On 1 July 2002 the consolidated entity acquired the remaining interest in the joint venture. (see below)

Acquisition of joint venture interests

During the 2003 financial year the consolidated entity acquired the remaining 50% of the ASJV and a further 32.83% of the EFJV for $125,000.

	Consolidated		The Company	
	2004	***2003***	***2004***	***2003***
	$	***$***	***$***	***$***
Consideration	-	125,000	-	-
Cash acquired	-	(59,479)	-	-
Outflow of cash	-	65,521	-	-
Fair Value of net assets of entity acquired :				
Cash assets	-	59,479	-	-
Receivables	-	51,142	-	-
Security deposits	-	121,147	-	-
Plant and equipment	-	136,165	-	-
Payables	-	(93,041)	-	-
Provisions	-	(119,262)	-	-
Discount on acquisition	-	(30,630)	-	-
Consideration	-	125,000	-	-

Included in the assets and liabilities of the consolidated entity are the following items which represent the consolidated entity's interest in the assets and liabilities employed in the joint ventures, recorded in accordance with the accounting policies set out in Note 1(b).

CURRENT ASSETS				
Cash	165,118	209,615	-	-
Receivables	14,548	317	-	-
Inventories	68,495	17,200	-	-
TOTAL CURRENT ASSETS	248,161	227,132	-	-
NON CURRENT ASSETS				
Receivables	23,840	35,015	-	-
Plant and Equipment - at cost	5,141	49,692	-	-
Exploration expenditure	108,330	108,330	-	-
TOTAL NON CURRENT ASSETS	137,311	193,037	-	-
Share of assets employed in joint ventures	385,472	420,169	-	-
CURRENT LIABILITIES				
Payables	28,464	22,513	-	-
Provision	140,166	128,529	-	-
TOTAL LIABILITIES	168,630	151,042	-	-
Net interest in joint ventures	216,842	269,127	-	-

NOTE 14 – INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD

The details of the investment in associate is as follows:

Name	*Principal activities*	*Balance date*	*Ownership interest (consolidated)* 2004 %	*Ownership interest (consolidated)* 2003 %	*Investment carrying amount* 2004 $	*Investment carrying amount* 2003 $
GTN Copper Technology Ltd	Evaluation of copper projects using Intec technology	30 June	36.3	36.3	100,000	100,000

The investment in GTN Copper Technology (GTNCT) is recorded at recoverable value based on the Directors' estimate of underlying value. GTNCT has no commitments but has a contingent liability of approximately US$ 100k to one of the directors, Mr Ray Soper, which represents unpaid fees.

Summary of financial position of associate

The consolidated entity's share of aggregate assets and liabilities of the associate is as follows:

	Consolidated *2004* $	**Consolidated** *2003* $
Non current assets	128,947	128,947
Provision for diminution	(28,947)	(28,947)
Net assets as reported by the associate	100,000	100,000

	Consolidated		The Company	
	2004	*2003*	*2004*	*2003*
	$	*$*	*$*	*$*

NOTE 15 – PLANT AND EQUIPMENT

Plant and equipment – at cost	1,605,252	1,868,028	-	-
Less accumulated depreciation	(1,569,019)	(1,734,326)	-	-
	36,233	133,702	-	-
Leased plant and equipment				
– Capitalised assets	-	-	-	-
Less accumulated amortisation	-	-	-	-
	-	-	-	-
Total plant and equipment	36,233	133,702	-	-

Reconciliations

Plant and equipment				
Carrying amount at the beginning of the year	133,702	756,064	-	-
Assets acquired from increase in share of JV interest	-	48,145	-	-
Additions	3,636	-	-	-
Disposals	(24,409)	(241,958)	-	-
Transfers	-	15,460	-	-
Write down	(69)	(194,865)	-	-
Depreciation	(76,627)	(249,144)	-	-
Carrying amount at the end of the year	36,233	133,702	-	-
Leased plant & equipment				
Carrying amount at the beginning of the year	-	427,755	-	-
Transfers	-	(15,460)	-	-
Disposals	-	(129,375)	-	-
Amortisation	-	(282,920)	-	-
Carrying amount at the end of the year	-	-	-	-

NOTE 16 – EXPLORATION AND DEVELOPMENT EXPENDITURE

Production phase - at cost	1,121,759	1,121,759	-	-
Less accumulated amortisation	(872,483)	(872,483)	-	-
	249,276	249,276	-	-

The ultimate recoupment of costs carried forward for exploration and development expenditure is dependent on the successful development and commercial exploitation or sale of the respective areas.

NOTE 17 – OTHER ASSETS

CURRENT				
Prepayments	266	267	-	-
NON CURRENT				
Other	1,850	1,850	870	870

	Consolidated		The Company	
	2004	*2003*	*2004*	*2003*
	$	*$*	*$*	*$*

NOTE 18 – PAYABLES

CURRENT				
Trade creditors	87,871	401,707	84,398	313,951
NON CURRENT				
Amounts payable to controlled entities	-	-	509,648	129,561

Further details of loans from controlled entities are set out in Note 30.

NOTE 20 – FINANCING ARRANGEMENTS

The consolidated entity did not have access to any financing facilities during the current or previous financial year.

NOTE 21 – PROVISIONS

CURRENT				
Restoration and rehabilitation costs	222,102	217,472	-	-
Crown royalty	-	3,228	-	-
Other	7,007	5,366	-	-
	229,109	226,066	-	-
Reconciliations				
Crown royalty				
Opening balance	3,228	-	-	-
Provision	-	3,228	-	-
Payments	(3,228)	-	-	-
Balance at end of year	-	3,228	-	-
Other				
Opening balance	5,366	-	-	-
Provision	7,007	5,366	-	-
Payments	(5,336)	-	-	-
Balance at end of year	7,007	5,366	-	-

NOTE 22 – CONTRIBUTED EQUITY

Share Capital

19,689,713 ordinary shares				
- Fully paid	13,121,707	13,121,707	13,121,707	13,121,707

Ordinary shares

Holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at shareholders' meetings.

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

	Consolidated		The Company	
	2004	*2003*	*2004*	*2003*
	$	*$*	*$*	*$*
NOTE 23 – ACCUMULATED LOSSES				
Accumulated losses at beginning of year	(9,612,658)	(9,608,221)	(11,069,144)	(13,108,942)
Net profit/(loss)	(417,165)	(4,437)	1,288	2,039,798
Accumulated losses at the end of the year	(10,029,823)	(9,612,658)	(11,067,856)	(11,069,144)

NOTE 24 – FINANCIAL INSTRUMENTS

(a) Foreign Exchange risks

The consolidated entity is not exposed to significant financial risks from movements in foreign exchange rates as there are no financial assets and liabilities denominated in foreign currencies. The consolidated entity does not participate in any type of hedging transaction or derivatives.

(b) Accounting policies and methods adopted

The accounting policies and methods adopted in relation to each class of financial asset and liability are disclosed in Note 1.

(c) Interest Rate Risk

The consolidated entity's exposure to interest rate risk, which is the risk that a financial instrument's value will fluctuate as a result of changes in market interest rates on those financial assets and liabilities, is as follows:

			Fixed Interest Rate Maturing		
2004	**Note**	**Effective Interest Rate**	**Floating Interest Rate**	**Non Interest Bearing**	**Total**
		%	*$*	*$*	*$*
Financial Assets					
Cash assets	8	4.50	2,418,848	-	2,418,848
Receivables	9	-	-	22,517	22,517
Security Deposits	9	5.00	158,211	-	158,211
Total Financial Assets			2,577,059	22,517	2,599,576
Financial Liabilities					
Payables	19	-	-	87,871	87,871
Total Financial Liabilities			-	87,871	87,871

			Fixed Interest Rate Maturing		
2003	**Note**	**Effective Interest Rate**	**Floating Interest Rate**	**Non Interest Bearing**	**Total**
		%	*$*	*$*	*$*
Financial Assets					
Cash assets	8	4.59	2,343,249	-	2,343,249
Receivables	9	-	-	56,718	56,718
Security Deposits	9	3.99	214,922	-	214,922
Total Financial Assets			2,558,171	56,718	2,614,889
Financial Liabilities					
Payables	19		-	401,707	401,707
Total Financial Liabilities			-	401,707	401,707

NOTE 24 – FINANCIAL INSTRUMENTS (Continued)

(d) Credit Risk

The maximum exposure to credit risk, excluding the value of any collateral or other security, at balance date to recognised financial assets is the carrying amount disclosed in the statement of financial position and notes to the financial report.

The consolidated entity does not have any material credit risk exposure to any single debtor or group of debtors.

(e) Net Fair Values

For all other financial assets and liabilities, the net fair value approximates their carrying value. No financial assets and financial liabilities are readily traded on organised markets.

The aggregate net fair values and carrying amounts of financial assets and financial liabilities are disclosed in the statement of financial position and in the notes to and forming part of the accounts.

NOTE 25 – COMMITMENTS

	Consolidated		The Company	
	2004	*2003*	*2004*	*2003*
	$	*$*	*$*	*$*
Operating Lease Commitments				
Future operating lease rentals not provided for in the financial statements and payable:				
Not later than one year	4,000	12,000	4,000	12,000
Later than one year but not later than five years	-	4,000	-	4,000
	4,000	16,000	4,000	16,000

The consolidated entity leases its Sydney premises under an operating lease expiring 31 October 2004.

NOTE 26 – CONTINGENT LIABILITIES

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

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

The Environmental Protection Agency (EPA) issued a request in November for further analysis of the mill site at Herberton in Queensland, the location of a former tin operation of the consolidated entity. Following testing, it was determined that further rehabilitation of the site was required. The consolidated entity has yet to finalise the rectification required with the EPA and local council. Although a reliable estimate of the contingent liability is not yet available, the Directors believe that the cost of such work should not exceed $50,000.

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

The consolidated entity has provided bank guarantees totalling $158,211 (2003: $204,922) to the DMR as mining security deposits.

NOTE 27 – SEGMENT REPORTING

Business and geographical segments

The consolidated entity operates entirely in the field of alluvial sapphire mining. The consolidated entity's operations are located entirely in Australia. The consolidated entity supplies sapphire predominantly to Thailand.

NOTE 28 – EVENTS SUBSEQUENT TO BALANCE DATE

King Island Project

The Company entered into an option agreement with the owners of Australian Tungsten Pty Ltd (ATPL) whereby it may acquire 100% of that company. ATPL owns 100% of the King Island Scheelite Project on King Island, Tasmania. The King Island project contains the remaining resources of the King Island scheelite mine, which operated between 1917 and 1990, as well as possible extensions to the known ore bodies and other tungsten exploration opportunities. Scheelite is an ore of tungsten.

The option agreement requires the Company to fund a Pre-Feasibility Study to the extent of $250,000. This study will address the upgrading of resource information to JORC standard, confirm the marketing outlook and address all key factors affecting the possible project development. The study is expected to take 3-6 months.

If the Company decides to exercise the option to acquire ATPL, it will require shareholder approval for the acquisition.

International Financial Reporting Standards
For reporting periods beginning on or after 1 January 2005, the consolidated entity must comply with International Financial Reporting Standards (IFRS) as issued by the Australian Accounting Standards Board.

This financial report has been prepared in accordance with Australian accounting standards and other financial reporting requirements (Australian GAAP). The differences between Australian GAAP and IFRS identified to date as potentially having a significant effect on the consolidated entity's financial performance and financial position are summarised below. This summary should not be taken as an exhaustive list of all the differences between Australian GAAP and IFRS. No attempt has been made to identify all disclosure, presentation or classification differences that would affect the manner in which transactions or events are presented.

The consolidated entity has not quantified the effects of the differences discussed below. Accordingly, there can be no assurances that the financial performance and financial position as disclosed in this financial report would not be significantly different if determined in accordance with IFRS. Regulatory bodies that promulgate Australian GAAP and IFRS have significant ongoing projects that could affect the differences between Australian GAAP and IFRS described below and the impact of these differences relative to the company's financial reports in the future.

NOTE 28 – EVENTS SUBSEQUENT TO BALANCE DATE (Continued)

The potential impact on the consolidated entity's financial performance and financial position of the adoption of IFRS, including system upgrades and other implementation costs which may be incurred, has not been quantified as at the transition date of 1 July 2004 due to the short time between finalisation of the IFRS standards and the date of preparing this report. The impact on future years will depend on the particular circumstances prevailing in those years, however no significant impacts are expected from the conversion to IFRS.

The impact of exposure draft ED 6 *Exploration for and Evaluation of Mineral Resources* on the consolidated entity's accounting policy for the treatment of exploration and evaluation expenditure cannot be determined until the final standard is issued by the International Accounting Standards Board in September 2004, and the equivalent Australian accounting standard is subsequently issued by the Australian Accounting Standards Board.

Recent announcements from the AASB indicate that the IASB will amend ED6 and will grandfather Australia's existing areas of interest method of accounting for exploration and evaluation expenditure. Until these proposed changes are enacted it is not possible to determine the potential impact in respect to extractive industries.

Other than the matters discussed above, there has not arisen in the interval between the end of the financial year and the date of this report any item, transaction or event of a material and unusual nature likely, in the opinion of the Directors of the Company, to affect significantly the operations of the consolidated entity, the results of those operations, or the state of affairs of the consolidated entity, in future financial years.

NOTE 29 – DIRECTOR AND EXECUTIVE DISCLOSURES

The Company has 3 directors and no specified executives or other employees. This has resulted from the downturn in demand for rough sapphire and the reduction in mining activity to match. The Company does not have a remuneration policy in place.

Contract terms and conditions
All directors are paid for time incurred in attending board meetings. The non executive directors do not receive performance based remuneration. The Chief Executive Officer's bonus disclosed in the annual financial report is in respect of the previous financial year. No bonuses were paid in respect of the current financial year.

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

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

Mr Soper (Non Executive)
Mr Soper is paid on a per diem basis capped at $20,000pa to attend and Chair board meetings. Any further work on behalf of the Company is paid on a time incurred basis. No such additional work was performed during the current financial year.

Mr Haggarty (Non Executive)
Mr Haggarty is paid on a per diem basis for time spent attending board meetings that reflects current market rates. Any further work on behalf of the Company is paid on a time incurred basis. No such additional work was performed during the current financial year.

Mr Heywood (Chief Executive Officer)
Mr Heywood is paid on a per diem basis for time spent on Company business and attending board meetings. Mr Heywood's contract with the Company also includes performance based remuneration. Bonuses are payable on meeting certain individual performance criteria and the profitability of the Company compared to budget. As noted above there was no bonus paid or accrued to Mr Heywood in respect of the current financial year.

As a contractor Mr Heywood does not accrue annual leave, long service leave or sick leave.

Director remuneration for the year ended 30 June 2004
The following table provides details of all directors of the Company and the nature and amount of the elements of their remuneration for the year ended 30 June 2004.

The Company and consolidated entity	Consulting Fees	Directors Fees'	Total
Mr R. Soper	-	20,000	20,000
Mr A. Haggarty	-	11,600	11,600
Mr K Heywood	97,492	-	97,492

NOTE 29 – DIRECTOR AND EXECUTIVE DISCLOSURES (Continued)

Specified Executives

Mr N Jones (Company Secretary)

Mr Jones does not have a contract with the Company. His time spent on company secretarial and accounting services was charged through MEM Consultants Pty Ltd a company controlled by Mr Haggarty. The total charges for accounting and secretarial services are included in the non remuneration transactions shown below. Mr Jones received no remuneration in respect of this role during the financial year ended 30 June 2004.

Equity holdings and transactions

The movement during the reporting period in the number of ordinary shares of the Company held directly, indirectly or beneficially, by each specified director, including their personally related entities is as follows:

	Held at 1 July 2003	Purchases	Held at 30 June 2004
Directors			
RJ Soper	62,512	-	62,512
AJ Haggarty	434,151	2,958,738	3,392,889
KP Heywood	-	-	-

Options over ordinary shares in the Company

Share options

There were no share options granted during the financial year. No options were held by the directors of the Company.

Non remuneration transactions with the Company

Mr AJ Haggarty is a director of MEM Consultants Pty Limited, a company which he controls. This company renders accounting business services consulting and sublets office space at 1 York Street to the consolidated entity on normal terms and conditions and in the ordinary course of business.

The value of the non remuneration transactions with the Company and consolidated entity during the year with directors and their director related entities were as follows:

		Consolidated		The Company	
		2004	2003	2004	2003
Director	Director related entity	$	$	$	$
AJ Haggarty	MEM Consultants Pty Ltd	55,233	201,712	55,233	80,433

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

NOTE 30 – NON DIRECTOR RELATED PARTIES

Wholly owned group

Details of interests in wholly owned controlled entities are set out in Note 14. Details of dealings with these entities are set out below:

Loans

Loans between entities in the wholly owned group are interest free and repayable on call, although there is no intention of requiring repayment within the next twelve months.

NOTE 30 – NON DIRECTOR RELATED PARTIES (Continued)

Balances with entities within the wholly owned group

	The Company	
	2004	*2003*
	$	*$*
Receivables		
Non current	512,320	708,934
Payables		
Non current	509,648	170,958

During the previous financial year, a former wholly owned subsidiary, Great Northern Mining Pty Ltd, forgave all loans with other group companies.

Partly owned controlled entities
Details of interests in partly owned controlled entities are set out in Note 12.
The aggregate amount payable to the Company by the partly owned controlled entity was $468,115 (2003: $468,115). A provision of $468,115 has been raised against the cost of this receivable in the accounts of the Company.

All dealings with partly owned controlled entities are in the ordinary course of business and on normal terms and conditions.

Entities subject to common control
During the previous financial year Great Northern Mining Pty Ltd sold production of $117,958 of rough parti stone to Seraph Sapphires Pty Ltd. These transactions were in the ordinary course of business and on normal terms and conditions.

DIRECTORS' DECLARATION

In the opinion of the directors of GTN Resources Ltd (the Company);

(a) The financial statements and notes set out on pages 5 to 30 are in accordance with the Corporations Act 2001, including:

(i) giving a true and fair view of the Company's and consolidated entity's financial position as at 30 June 2004 and of their performance as represented by the result of their operations and their cash flows for the year ended on that date.

(ii) complying with Accounting Standards in Australia and Corporations Regulations 2001; and

(b) There are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

Signed in accordance with a resolution of the directors:

A J Haggarty
Director

Dated 27 day of September 2004

Independent audit report to the members of GTN Resources Limited

Scope

The financial report and directors' responsibility

The financial report comprises the statements of financial position, statements of financial performance, statements of cash flows, accompanying notes to the financial statements, and the directors' declaration set out on pages 5 to 32 for both GTN Resources Limited (the "Company") and GTN Resources and its controlled entities (the "Consolidated Entity"), for the year ended 30 June 2004. The Consolidated Entity comprises both the Company and the entities it controlled during that year.

The directors of the Company are responsible for the preparation and true and fair presentation of the financial report in accordance with the *Corporations Act 2001*. This includes responsibility for the maintenance of adequate accounting records and internal controls that are designed to prevent and detect fraud and error, and for the accounting policies and accounting estimates inherent in the financial report.

Audit approach

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

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

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

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

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

Independence

In conducting our audit, we followed applicable independence requirements of Australian professional ethical pronouncements and the *Corporations Act 2001*.

Audit opinion

In our opinion, the financial report of GTN Resources Limited is in accordance with:

(a) the Corporations Act 2001, including:

   (i) giving a true and fair view of the Company's and consolidated entity's financial position as at 30 June 2004 and of their performance for the year ended on that date; and

   (ii) complying with Accounting Standards in Australia and the Corporations Regulations 2001; and

(b) other mandatory professional reporting requirements in Australia.

KPMG

Trent van Veen
Partner

Sydney 27 September 2004

CORPORATE GOVERNANCE

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

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

Principle 1: Lay solid foundations for management and oversight

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

The Company's board is comprised of 3 directors:

- Raymond Soper Non executive Chairman
- Anthony Haggarty Non executive director
- Kerry Heywood Executive director

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

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

Principle 2: Structure the board to add value

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

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

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

- The Chairman is not independent, however he is separate from the Chief Executive.
- The Company has a formally constituted audit committee but does not have a Board Nominations or Remuneration Committee. Due to the Company's size and limited operations the Board no longer uses the Corporate Governance Committee.
- The majority of Directors should be independent.

While Mr Soper is not a substantial shareholder nor has he provided consulting services, he is not considered independent because he has been a non executive director of the Company since 1992, a period of time, which in the words of the ASX document, "could be perceived to materially interfere" with his "ability to act in the best interest of the company".

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

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

Principle 3: Promote ethical and responsible decisions-making

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

The directors will not deal in Company shares:

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

In accordance with the Corporations Act 2001 and the Listing Rules of the Australian Stock Exchange, directors advise the Exchange of any transactions conducted by them in shares in the Company.

Principle 4: Safeguard integrity in financial reporting

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

The Company has an Audit Committee. The committee consists of the 3 directors who also sit on the main board. As noted above these directors do not meet the ASX's guidance regarding independence (see note under Principle 2).

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

Principle 5: Make timely and balanced disclosures

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

Principle 6: Respects the rights of shareholders

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

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

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

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

The Company requests the external auditor to attend general meeting.

Principle 7: Recognise and manage risk

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

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

Principle 8: Encourage enhanced performance

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

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

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

Principle 9: Remunerate fairly and responsibly

There are no formal remuneration policies maintained by the Company.

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

The Company does not maintain a share option plan.

Principle 10: Recognise the legitimate interests of stakeholders

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

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

ASX ADDITONAL INFORMATION

Additional information required by the Australian Stock Exchange Limited Listing Rules and not disclosed elsewhere in this report is set out below:

Shareholdings (as at 31 August 2004)

	Number of ordinary shares held	*Percentage capital held*
Substantial Shareholders		
Abex Resources Australia Pty Ltd	3,443,889	17.49
The Glen Rural Pty Ltd	3,392,889	17.23
Chrysalis Investments Pty Ltd	2,138,304	10.86
Mrs Lyn Margaret Davies	1,119,964	5.69
Chris Ellis Coal Services Pty Ltd	932,775	4.74
Twenty Largest Shareholders		
Abex Resources Australia Pty Ltd	3,443,889	17.49
The Glen Rural Pty Ltd	3,392,889	17.23
Chrysalis Investments Pty Ltd	2,138,304	10.86
Mrs Lyn Margaret Davies	1,119,964	5.69
Chris Ellis Coal Services Pty Ltd	932,775	4.74
Serlett Pty Ltd	930,208	4.72
Willersley Limited	753,000	3.82
Mobuck Investments Pty Ltd	332,777	1.69
Roger Massy-Greene	332,267	1.69
National Nominees Ltd	227,432	1.16
PRMC Pty Limited	220,000	1.12
Gecko Resources Pty Ltd	200,000	1.02
Profile Products (Australia)	200,000	1.02
Mr Michael John Palmer & Mrs Coralie Ann Palmer	191,250	0.97
Zoelpal Pty Limited	175,127	0.89
Mrs Lisa Zoellner	165,944	0.84
Debours Pty Limited	165,000	0.84
Andrew Plummer	161,261	0.82
Westpac Custodian Nominees	120,227	0.61
Allan Dale Holdings Pty Ltd	115,000	0.53
	15,317,314	77.79

The number of shareholders holding less than a marketable parcel was 441.

Distribution of equity security holders

Category	*Number of ordinary shares held*	*Percentage capital held*
1 - 1,000	352	0.33
1,001 - 5,000	131	2.01
5,001 - 10,000	51	2.21
10,001 - 100,000	95	16.38
100,000 - and over	23	79.07
Total	652	100.00

Voting Rights
On a show of hands every member present in person or by proxy shall have one vote, and upon a poll each share shall have one vote.

On-Market Buy Back
There is no current on-market buy back