King Island Scheelite Limited
ABN 40 004 681 734

and its controlled entities

ANNUAL FINANCIAL REPORT

30 June 2007

King Island Scheelite Limited Annual Financial Report 30 June 2007

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King Island Scheelite Limited Annual Financial Report 30 June 2007

Directors' report

Directors

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

Anthony Haggarty Non-Executive Chairman, MComm (NSW), (appointed 7 April 1998), has over 25 years experience in the development, management and financing of mining projects. He has worked for BP Coal and BP Finance in Sydney and London and for Agipcoal as the Managing Director of its Australian subsidiary. He is also a director of the publicly listed company Whitehaven Coal Limited (appointed 3 May 2007), Australian Coal Association Research Program Ltd and Port Kembla Coal Terminal Pty Ltd.
During the 3 years to 30 June 2007, Tony was a director of the publicly listed company Excel Coal Limited (for the period 11 November 2002 to 25 October 2006),

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

Robin worked with the former Western Mining Corporation Ltd in Australia, the USA and Brazil and with Pacific-Nevada Mining Pty Ltd (then a wholly owned subsidiary of Franco-Nevada Mining Ltd) in Australia. Robin was a founding director (including managing director and chairman) of ASX-listed ReLODE Limited (subsequently renamed Integra Mining Limited) for the period January 2001 to March 2004. Robin was a founding director of Australian Tungsten Pty Ltd (ATPL) which secured the King Island scheelite asset. ATPL was later vended into ASX-listed GTN Resources Ltd which was subsequently renamed King Island Scheelite Ltd. In 2007 Robin co-founded Pleiades Resources Pty Ltd and a wholly-owned subsidiary M45 Mineração Ltd, both exploration companies, operating in Australia and Brazil respectively.

Andrew Plummer **Independent Non-Executive Director BS Mining Eng Colorado School of Mines,** (appointed 1 March 2006)

Andy has 35 years experience in the investment banking and mining industries. He was most recently an executive director of Excel Coal Limited (for the period 8 July 1987 to 10 October 2006), responsible for the company's business development activities. He has worked in the Australian banking and finance industry since 1985 with Eureka Capital Partners, Resource Finance Corporation and Westpac. Prior to that, he was employed in a variety of management and technical positions with ARCO Coal, Utah International and Consolidation Coal. He is also a director of Whitehaven Coal Ltd (appointed 3 May 2007), XLX Pty Ltd and Chairman of Ranamok Glass Prize Ltd.

Raymond Soper **Independent Non-Executive Director, BSc (Otago), MBA (NSW)** (appointed 18 June 1992 retired 31 March 2007). Ray had, at the date of his retirement as a director of the Company, over 40 years experience in mining operations, mineral economics, investment management, strategic management, consulting and merchant banking. Ray was also a Director of two other public listed companies: PlatSearch NL (appointed 16 March 1987) and Huntley Investment Company Ltd (appointed 26 October 1993).

During the 3 years to 30 June 2007, Ray was a Director of three public listed companies: Continental Minerals Corporation (formerly Misty Mountain Gold Limited) (TSE) (for the period 31 December 1993 to 3 May 2005); Klondike Source Limited (NSX) (for the period 15 May 1999 to 31May 2006); and Paradigm Gold Ltd (for the period 18 November 2002 to 1 February 2007)

Company Secretary

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

Directors' meetings

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

	Board Meetings		*Audit Committee Meetings*	
	A	B	A	B
Anthony Haggarty	10	10	2	2
Robin Morritt	9	10	2	2
Andrew Plummer	10	10	2	2
Raymond Soper	7	8	2	2

A Number of meetings attended
B Number of meetings held during the time the director held office during the year

Principal activities

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

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

Operating and financial review

Review of business

Feasibility Study

On 3 October 2006, the Company announced the results of the Feasibility Study for the King Island Scheelite mine re-development project. This Feasibility Study was carried out over the 16 months since the Company completed the acquisition of Australian Tungsten Pty Ltd.

The Base Case for the project provided for the establishment of a mine and mill complex with capacity to treat 600,000 tpa (tonnes per annum) of tungsten bearing scheelite ore produced from an open pit mine.

In April 2006, the Company released the results of a resource assessment prepared by AMC Consultants that demonstrated the presence of a resource of 13.4 million tonnes grading 0.64% WO_3 potentially recoverable from an open pit mine to a depth of 308 metres below sea level.

Review of business (continued)

The mining plan developed for the Feasibility Study provided for the initial development of an open pit mine to a depth of 180 metres. As further information becomes available during operations together with more detailed design for waste disposal, it is expected that the mining operations will continue to a 248 metre pit, subject to obtaining the necessary approvals for the expanded pit requirements at that time. It was anticipated that the initial pit would permit the recovery of 6.8 million tonnes grading 0.55% WO_3 over a projected mine life of 10 years.

Selective mining would be practised to maximise the grade of ore presented to the mill. Lower grade material will be separated and stockpiled for treatment after the mining operations have ceased.

Annual output (WO_3) from the project will average 300,000 mtu over the first ten years of operation. Fluctuations in output reflect changing ore grades as successive high grade or lower grade parts of the deposit are mined.

Overall strip ratio for the initial pit is 8 to 1 on a bcm (bank cubic metres) of waste to bcm of ore basis. The ore dilution assumption is 10%.

The mine extends the existing open pit mine eastwards toward the sea. The pit will be protected by a sea-wall and reclamation area using overburden from the open pit mine. It is intended to make available to the Tasmanian State Government some of the overburden produced should they decide to build a new breakwater and port to augment the small existing port that was originally developed using overburden from the open pit mine that operated from 1917 to 1973.

Water ingress to the pit will be controlled by construction of a low permeability "cut-off" wall protecting the perimeter of the pit, using technology widely used around the world in similar situations in civil construction.

The mill will be a 600,000 tpa plant comprising crushing, milling, magnetic separation and flotation circuits.

Tailings from the concentration process will be placed in a tailings dam to be built on top of the old tailings dam.

The anticipated start-up capital cost of the project totals $95 million. This covers the cost of the mining equipment, mill, associated site requirements, cut-off wall to protect the pit and project costs, purchase of mining equipment, construction of the process plant and the cut off wall, provision of infrastructure including power, access roads and earthworks. This estimate also includes EPCM (Engineering, Procurement, and Construction Management) costs and other project overheads. In addition, up to $15 million will be spent on pre-strip over the first year to open up the mine.

The plant will produce marketable scheelite concentrates with an average grade of +65% WO_3. These will be shipped to market in 20 tonne containers from the King Island port, immediately adjacent to the mine.

During the construction stage of the project, the Company expects that the work force will peak at 150 people. Approximately 100 people will be employed once normal operations are achieved. The workforce will be accommodated in current and new housing in the Grassy township and elsewhere on the island. Some additional temporary accommodation may be required during the construction stage.

Review of business (continued)

Power will be provided by independent contractors using diesel powered generating sets.

Project Economics

Over the first ten years of the mine life, cash operating costs are projected to average of A$85 to A$100 per mtu of WO_3 produced. Current estimates of costs are towards the upper end of this range.

Mine Redevelopment

The Company has now received all requisite regulatory approvals and is in a position to commence re-development of the King Island mine following the conclusion of funding arrangements.

The Tasmanian State Government issued the conditions that will apply as part of granting the mining lease, and similarly the Federal Government's Department of Environment and Heritage issued draft conditions that will apply for the approval to reclaim land in Grassy Bay. The final major approval was that of the King Island Council, which was granted by May 2007.

An extensive metallurgical test-work programme undertaken during the year has resulted in the determination of the final process plant flow sheet.

In December 2006, the Company raised $4,286,000, after capital raising fees, through an issue of equity in the company to professional or sophisticated investors. Additionally, a share purchase plan was announced that allowed existing shareholders to purchase up to $5,000 worth of shares in the company at the placement price.

Chief Executive Officer

On 26 September 2006, the Company announced the appointment of Mr Nick Lambeth as Chief Executive Officer.

Prior to joining the Company, Nick spent 24 years working with Rio Tinto at various businesses in Australia and overseas. During that time he spent eight years with Lihir Gold Limited, having joined that organisation during the construction phase. Once the project entered production he also had substantial involvement in operational issues, as well as his primary role of Chief Financial Officer.
After eight years with Lihir, including living on the island, he was appointed the Global Project Manager for Rio Tinto to implement the requirements of the Sarbanes Oxley Act.

Review of business (continued)

Hunan Nonferrous Metals Corp (HNC)

On 27 March 2007, the Company entered into a non-binding Letter of Intent (LOI) with Hunan Nonferrous Metals Corp (HNC) to facilitate the re-development of the King Island scheelite mine located on King Island, Tasmania.

The non-binding LOI, which is subject to HNC's due diligence, is structured to support the Company's financing requirements to re-develop the mine. In particular, the LOI includes provisions to provide the Company with concentrate pricing support and a measure of equity funding so as to facilitate appropriate project finance. In addition, the LOI envisages HNC entering into a long term off-take agreement with the Company to purchase 50% of the concentrate that will be produced by the project.

HNC has now completed its due diligence process in relation to the project. Further details are included on page 7.

Tungsten Market

One of the most challenging aspects of the Feasibility Study relates to the appropriate long-term tungsten concentrate price to use for project valuation. There is considerable uncertainty regarding the likely mine-life price.

The average scheelite ore concentrate price for the 12 months to July 2007 was US$210 per metric tonne unit (1 mtu = 10 kg), with a high of US$222. The scheelite concentrate price, as quoted on Metal Pages, was slightly lower at US$195 – US$200 per mtu (A$229 – A$235) at the end of July 2007. The Australian dollar continues to strengthen against the US dollar, ending July at 85 cents.

Outlook

The Company and HNC are continuing to discuss funding arrangements and expect that final agreement could be achieved by the end of October 2007.

The Company is in discussion with potential customers and has received expressions of interest for scheelite concentrate off-take agreements. The Company has provided these parties with appropriate information. Formal responses are pending.

Subject to completion of an agreement with HNC and formalisation of off-take agreements, the Company will be in a position to move into the construction phase, commencing with detailed engineering and pre-ordering of the longer lead-time items.

Dividends

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

Events subsequent to balance date

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

Events subsequent to balance date (continued)

Eastern Feeder Joint Venture

The Company has agreed to sell all the shares it owns in Eastern Feeder Holdings Pty Ltd , which has a 74.5% interest in the Yarandoo sapphire mining operation located near Inverell New South Wales. The Yarandoo tenements are at Yarandoo (tenement AL2) and Narranvale (tenement ALA 29).

As consideration for this share sale, the purchaser agreed to:

(a) Pay the Company a royalty at the rate of 5% of gross proceeds from sale of sapphires from the tenements for the royalty period commencing on the completion date for the period that sapphires are mined, extracted or taken from Yarandoo and Narranvale; and
(b) Acquire the liabilities, arising before or after completion, in Eastern Feeder Holdings Pty Ltd, including any rehabilitation obligations with respect to the Yarandoo and Naranvale tenements.

At the date of this report, whilst it has been agreed that these shares would be transferred, completion has not yet occurred and at 30 June 2007, capitalised development costs of $178,000 were written off, as it was considered remote that there would be future receipt of royalty proceeds from the sale of sapphires from Yarandoo or Narranvale.

Hunan Nonferrous Metals Corporation ('HNC')

On 13 August 2007, the Company and HNC signed a Principles of Agreement, whereby:

- The Company would issue approximately 4.4 million new ordinary shares to HNC, which will be equivalent to approximately 10% of the Company's total issued capital, at a price of A$1.00 per share;
- One representative from HNC will be invited to join the Company's Board;
- An unincorporated Joint Venture to be formed between the Company and HNC, with each party having a 50% participation interest, to develop the Project and to share on-going operating and capital costs;
- HNC to provide debt funding to the Company to meet the Company's 50% contribution to the Project development cost. This loan to be on normal commercial terms with repayments of loan principal linked to a proportion of the Company's 50% share of net cash flow from the Project;
- The Company will manage construction and operation of the Project; and
- The Company and HNC will market the output from the Project on the most favourable terms available in the market.

It is expected that, subject to various approvals, that the appropriate documentation would be signed in the December quarter of 2007, and construction activities would commence immediately thereafter.

Likely developments

The Consolidated Entity will continue to explore on its tenements and evaluate the resources and reserves at King Island with a view to committing to construction of the mine.

Subject to completion of the agreement proposed by the Principles of Agreement with Hunan Non-ferrous Metals Corporation, the Company will be in the position to proceed with construction of the project.

Directors' interests

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

King Island Scheelite Limited	*Ordinary fully paid shares*	*First Tranche Closing Performance Shares*	*Second Tranche Closing Performance Shares*	*First Tranche options*	*Second Tranche options*
Raymond Soper (at retirement 31 March 2007)	162,512	-	-	196,875	253,125
Anthony Haggarty	4,017,589	-	-	-	-
Robin Morritt	5,555,000	4,000,000	4,000,000	-	-
Andrew Plummer	884,146	-	-	-	-

Further details of options issued to Mr. Soper are included in the Remuneration Report commencing page 9.

Environmental regulation

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

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

(b) Base Metal Operations
The Company has finalised the rectification required with the EPA and local council. Costs for this work totalled $176,000.

(c) King Island

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

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

Indemnification and insurance of officers

During the financial year, the Company arranged insurance to indemnify each director and officer holding office during the year against any liabilities for costs and expenses incurred by them, including legal expenses, as a result of any third party proceedings arising from their conduct as directors and officers of the Company, other than dishonest or criminal intent, improper gain, or insider trading in

Indemnification and insurance of officers (continued)

relation to the Company. The Company paid a premium of $30,027 (2006 $28,199), exclusive of GST, for this insurance cover.

Non-audit services

During the year KPMG, the Company's auditor, did not provide any other services in addition to their statutory duties. Details of the amounts paid to the auditor of the Company, KPMG, and its related practices for audit services provided during the year are set out below.

	Consolidated	
Audit Services	**2007**	2006
	$	$
Auditors of the Company		
KPMG Australia		
Audit and review of financial reports	**50,700**	45,500
Other regulatory services – AIFRS review	**-**	14,600
	50,700	60,100

Remuneration Report

The Company has 3 non-executive directors and 1 chief executive officer. A remuneration policy is in place for the chief executive officer.

Contract terms and conditions

All directors are paid for the time incurred in attending board meetings. Apart from 450,000 options issued to Mr. Soper and described in this remuneration report, non executive directors do not receive performance based remuneration. No bonuses were paid in respect of the current or previous financial years.

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

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

Mr Haggarty (Non-Executive Chairman)
Mr Haggarty, or an entity controlled by Mr. Haggarty, was paid at the rate of $26,400 p.a. plus 9% statutory superannuation to be a non-executive Director until 22 November 2006, when he replaced Mr. Soper as Chairman. During the period 23 November 2006 to 30 June 2007 an entity controlled by Mr. Haggarty was paid at the rate of $30,987 p.a. plus 9% statutory superannuation for Mr. Haggarty to be a non-executive Director and Chairman. Any further work on behalf of the Company is paid on a time incurred basis. No annual or long service leave accrues to Mr Haggarty. Details of this remuneration are set out below.

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

Remuneration Report (continued)

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

Mr Soper (former Non-Executive)
Mr Soper, or an entity controlled by Mr. Soper, was paid at the rate of $30,987 p.a. plus 9% statutory superannuation to be a non-executive Director and Chairman during the period 1 July 2006 to 22 November 2006, when Mr. Soper retired as Chairman but remained a non-executive Director. An entity controlled by Mr. Soper was then paid $26,400 p.a. plus 9% statutory superannuation for Mr. Soper to be a non-executive Director for the period 23 November 2006 to 31 March 2007. No annual or long service leave accrues to Mr Soper. Any further work on behalf of the Company is paid on a time incurred basis. Details of this remuneration are set out below.

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

Mr. Nicholas Lambeth (Chief Executive Officer)
The chief executive officer's contract is summarised as follows:

- The annual remuneration package totals $330,000, inclusive of superannuation and any motor vehicle component plus performance based incentives;
- Performance based incentives are payable upon the achievement of certain milestones: financial close, signing of major construction contracts, construction 50% complete and successful commissioning;
- Upon achievement of all these milestones, the performance based incentive payment would total $160,000;
- A salary review is undertaken initially on 30 June 2007 and then 30 June each year;
- Hours of work are such time as is necessary to successfully carry out the duties of chief executive officer in a professional manner;
- Annual leave totals 4 weeks per annum;
- Long service leave is paid in accordance with the relevant legislation; and
- In the event of redundancy, the Company would pay 6 months of the annual remuneration package applicable at the time of termination.

Options issued to Directors

There were no options issued to Directors or Executives during or since the end of the financial year.

The following factors and assumptions were used in determining the fair value of all options granted in the previous year:

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

Remuneration Report (continued)

Options issued to Directors (continued)

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

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

Directors		*Number of options granted*	*Grant Dates*	*Number of options vested*	*Fair Value of Option at Grant Date*	*Exercise Price per Option*	*Expiry Date*
					cents	cents	
Mr. Ray Soper	**2007**	**-**	**-**	**-**	**-**	**-**	**-**
	2006	450,000	4 July 2005	450,000	17	0.001	3 July 2010
Mr. Kerry Heywood	**2007**	**-**	**-**	**-**	**-**	**-**	**-**
	2006	450,000	4 July 2005	450,000	17	0.001	3 July 2010

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

All options were fully vested in the previous financial year.

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

Directors	*Year*	*Granted in year*	*Value of options*		*Total option value in year*
			Exercised in year	*Forfeited in year*	
		$	$	$	$
Mr. Ray Soper	**2007**	**-**	**-**	**-**	**-**
	2006	76,500	-	-	76,500
Mr. Kerry Heywood	**2007**	**-**	**-**	**-**	**-**
	2006	76,500	-	-	76,500

Remuneration Report (continued)

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

		Short-term				Post-employment	Other long term	Termination benefits	Share-based payments	Total	Proportion of remuneration performance related	Value of options as proportion of remuneration %
		Salary & fees	Cash bonus	Non-monetary benefits	Total	Super benefits						
		$	$	$	$	$	$	$	$	$		
Directors												
A Haggarty[1]	**2007**	**29,076**	**-**	**-**	**29,076**	**2,617**	**-**	**-**	**-**	**31,693**	**-**	**-**
	2006	26,400	-	-	26,400	2,376	-	-	-	28,776	-	-
R Morritt	**2007**	**26,400**	**-**	**-**	**26,400**	**2,376**	**-**	**-**	**-**	**28,776**	**-**	**-**
	2006	26,400	-	-	26,400	2,376	-	-	-	28,776	-	-
A Plummer	**2007**	**26,400**	**-**	**-**	**26,400**	**2,376**	**-**	**-**	**-**	**28,776**	**-**	**-**
(appointed 1 March 2006)[2]	2006	8,800	-	-	8,800	792	-	-	-	9,592	-	-
R Soper (retired 31 March 2007)[3]	**2007**	**122,249**	**-**	**-**	**122,249**	**1,954**	**-**	**-**	**-**	**124,203**	**-**	**-**
	2006	122,679	-	-	122,679	2,789	-	-	76,500	201,968	100%	100%
K Heywood (CEO resigned 30 June 2005)	**2007**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
	2006	-	-	-	-	-	-	-	76,500	76,500	100%	100%
Executive												
N Lambeth (CEO appointed 26 September 2006)	**2007**	**220,912**	**-**	**-**	**220,912**	**19,882**	**-**	**-**	**-**	**240,794**	**-**	**-**
	2006	-	-	-	-	-	-	-	-	-	-	-
Total compensation (Consolidated Entity and Company)	**2007**	**425,037**	**-**	**-**	**425,037**	**29,205**	**-**	**-**	**-**	**454,242**		
	2006	184,279	-	-	184,279	8,333	-	-	153,000	345,612		

1 For the year ended 30 June 2007 the Company paid $46,339 (2006 $46,627) to companies associated with Mr. Haggarty for director's fees $31,693 (2006 $28,776); office sub-rental and office supplies $14,191 (2006 $ 5,501) and consulting services $455 (2006 $12,350).

2 For the year ended 30 June 2007 the Company paid $14,388 (2006 $Nil) to companies associated with Mr. Plummer for director's fees.

3 For the year ended 30 June 2007 the Company paid $124,203 (2006 $125,468) to companies associated with Mr. Soper for director's fees $23,665 (2006 $33,776); and consulting services $100,538 (2006 $91,692).

Corporate Governance

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

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

Principle 1: Lay solid foundations for management and oversight

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

The Company's board is comprised of 3 directors at 30 June 2007:

- Anthony Haggarty Non-executive Chairman
- Robin Morritt Non-executive Director
- Andrew Plummer Non executive Director

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

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

Principle 2: Structure the board to add value

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

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

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

- The Chairman is not independent of the Consolidated Entity.
- The Company has a formally constituted Audit Committee but does not have a formal Audit Committee Charter, Board Nomination 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 are not independent.

Mr Haggarty is non-executive Chairman but is not independent. Mr Haggarty holds more than 5% of the share capital of the Company through a family company, The Glen Rural Pty Ltd.

Corporate Governance (continued)

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

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

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

Principle 3: Promote ethical and responsible decisions-making

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

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

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

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

Principle 4: Safeguard integrity in financial reporting

The 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 two directors do not meet the ASX's guidance regarding independence (see note under Principle 2).

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

Principle 5: Make timely and balanced disclosures

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

Corporate Governance (continued)

Principle 6: Respects the rights of shareholders

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

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

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

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

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

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. The Company only employs the Chief Executive Officer.

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

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

Principle 9: Remunerate fairly and responsibly

There are no formal remuneration policies maintained by the Company.

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

The Company does not maintain a share option plan.

Corporate Governance (continued)

Principle 10: Recognise the legitimate interests of stakeholders

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

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

Lead auditor's independence declaration

The lead auditor's independence declaration made under Section 307C of the Corporations Act 2001 is set out on page 57 and forms part of this Directors' Report.

Rounding off

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

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

Anthony Haggarty

Chairman

Sydney

25 September 2007

Income statements

For the year ended 30 June 2007

		Consolidated		The Company	
		2007	2006	**2007**	2006
	Note	**$000**	$000	**$000**	$000
Revenue	3	**-**	-	**9**	2
Cost of sales		**-**	-	**-**	-
Gross profit		**-**	-	**9**	2
Employee expenses	4	**(454)**	(362)	**(454)**	(363)
Administrative expenses		**(664)**	(373)	**(657)**	(241)
Depreciation		**(2)**	(4)	**(2)**	-
Write down of capitalised development costs		**(178)**	-	**-**	-
Impairment of receivable due from controlled entity		**-**	-	**(194)**	(44)
Impairment of investment in associate		**(100)**	-	**(100)**	-
Mine rehabilitation benefit / (expense)		**54**	(230)	**54**	(230)
Financial income – interest		**222**	161	**222**	160
Loss before tax and intangibles adjustment		**(1,122)**	(808)	**(1,122)**	(716)
Adjustment to intangible assets resulting from the recognition of income tax benefits	16	**(2,083)**	-	**-**	-
Loss before tax		**(3,205)**	(808)	**(1,122)**	(716)
Income tax benefit	6	**2,192**	-	**109**	-
Net loss attributable to members of the parent		**(1,013)**	(808)	**(1,013)**	(716)

		2007	2006
		cents	cents
Basic and diluted loss per share attributable to ordinary equity holders	7	**(2.7)**	(2.4)

The income statements are to be read in conjunction with the notes to the consolidated financial statements set out on pages 21 to 55.

Statements of changes in equity

For the year ended 30 June 2007

Consolidated	Note	Issued Capital $000	Accumulated losses $000	Share Option reserve $000	**Total equity $000**
Opening balance at 1 July 2005		19,942	(10,380)	-	**9,562**
Share issue		5,078	-	-	**5,078**
Share based payments		-	-	170	**170**
Net loss for the year		-	(808)	-	**(808)**
Closing balance at 30 June 2006		25,020	(11,188)	170	**14,002**
Share issue	19	4,286	-	-	**4,286**
Closing performance shares	19	9,920	-	-	**9,920**
Net loss for the year		-	(1,013)	-	**(1,013)**
Closing balance at 30 June 2007		39,226	(12,201)	170	**27,195**
The Company					
Opening balance at 1 July 2005		19,942	(10,472)	-	**9,470**
Share issue		5,078	-	-	**5,078**
Share based payments		-	-	170	**170**
Net loss for the year		-	(716)	-	**(716)**
Closing balance at 30 June 2006		25,020	(11,188)	170	**14,002**
Share issue	19	4,286	-	-	**4,286**
Closing performance shares	19	9,920	-	-	**9,920**
Net loss for the year		-	(1,013)	-	**(1,013)**
Closing balance at 30 June 2007		39,226	(12,201)	170	**27,195**

Amounts are stated net of tax

The statements of changes in equity should be read in conjunction with the notes to the consolidated financial statements set out on pages 21 to 55.

Balance sheets

As at 30 June 2007

		Consolidated		The Company	
		2007	2006	**2007**	2006
	Note	**$000**	$000	**$000**	$000
Current assets					
Cash and cash equivalents	8	**3,835**	3,323	**3, 816**	3,299
Trade and other receivables	9	**99**	61	**99**	61
Inventories	10	**28**	28	**28**	28
Total current assets		**3,962**	3,412	**3,943**	3,388
Non-current assets					
Trade and other receivables	9	**33**	39	**2**	195
Investments accounted for using the equity method	11	**-**	100	**-**	-
Other financial assets	14	**-**	-	**16,863**	7,043
Property, plant and equipment	15	**819**	705	**819**	705
Intangible assets	16	**25,810**	12,616	**5,970**	3,411
Deferred tax assets	13	**-**	-	**2,008**	-
Other		**1**	1	**1**	1
Total non-current assets		**26,663**	13,461	**25,663**	11,355
Total assets		**30,625**	16,873	**29,606**	14,743
Current liabilities					
Trade and other payables	17	**305**	436	**2,384**	436
Provisions	18	**74**	277	**27**	230
Total current liabilities		**379**	713	**2,411**	666
Non-current liabilities					
Deferred tax liabilities	13	**3,051**	2,158	**-**	75
Total non-current liabilities		**3,051**	2,158	**-**	75
Total liabilities		**3,430**	2,871	**2,411**	741
Net assets		**27,195**	14,002	**27,195**	14,002
Equity					
Issued capital	19	**39,226**	25,020	**39,226**	25,020
Reserves	19	**170**	170	**170**	170
Accumulated losses		**(12,201)**	(11,188)	**(12,201)**	(11,188)
Total equity		**27,195**	14,002	**27,195**	14,002

The balance sheets should be read in conjunction with the notes to the consolidated financial statements set out on pages 21 to 55.

Statements of cash flows

For the year ended 30 June 2007

	Note	Consolidated		The Company	
		2007	2006	**2007**	2006
		$000	$000	**$000**	$000
Cash flows used in operating activities					
Cash receipts from customers		**-**	-	**-**	-
Cash paid to suppliers and employees		**(1,447)**	(583)	**(1,439)**	(570)
Cash used in operations		**(1,447)**	(583)	**(1,439)**	(570)
Research and development expenditure tax rebate		**109**	-	**109**	-
Interest received		**222**	161	**222**	160
Other		**-**	-	**5**	-
Net cash used in operating activities	23	**(1,116)**	(422)	**(1,103)**	(410)
Cash flows used in investing activities					
Proceeds from sale of property, plant and equipment		**-**	4	**-**	-
Payment for property, plant & equipment		**(116)**	(705)	**(116)**	(705)
Payments for security deposits		**(44)**	(15)	**(50)**	-
Proceeds from sale of controlled entities		**60**	90	**60**	90
Exploration and evaluation expenditure		**(2,559)**	(2,971)	**(2,559)**	(2,971)
Other		**1**	-	**(1)**	-
Net cash used in investing activities		**(2,658)**	(3,597)	**(2,666)**	(3,586)
Cash flows from financing activities					
Proceeds from the issue of share capital		**4,449**	5,280	**4,449**	5,280
Capital raising costs		**(163)**	(202)	**(163)**	(202)
Net cash generated from financing activities		**4,286**	5,078	**4,286**	5,078
Net increase in cash and cash equivalents		**512**	1,059	**517**	1,082
Cash and cash equivalents at 1 July		**3,323**	2,264	**3,299**	2,217
Cash and cash equivalents at 30 June	8	**3,835**	3,323	**3,816**	3,299

The statements of cash flows should be read in conjunction with the notes to the consolidated financial statements set out on pages 21 to 55.

Notes to the consolidated financial statements

1 Significant accounting policies

King Island Scheelite Limited (the "Company") is a company domiciled in Australia. The consolidated financial report of the Company for the year ended 30 June 2007 comprise the Company and its subsidiaries (together referred to as the "Consolidated Entity" or "Group") and the Consolidated Entity's interest in associates.

On 19 September 2007, the consolidated financial report was authorised for issue by the directors.

(a) Statement of compliance

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

(b) Basis of preparation

The financial report is presented in Australian dollars.

The financial report is prepared on the historical cost basis.

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

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

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

- revised AASB 101 *Presentation of Financial Statements* (issued October 2006).

This includes applying the pronouncement to the comparatives in accordance with AASB 108 *Accounting Policies, Changes in Accounting Estimates and Errors*. No adjustments to any of the financial statements were required for the above pronouncement, but certain disclosures are no longer required and have therefore been omitted.

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

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

(b) Basis of preparation (continued)

from the release of AASB 7. AASB 2005-10 is applicable for annual reporting periods beginning on or after 1 January 2007; and

- Revised AASB-1 10 *Interim Financial Reporting and Impairment*

The Consolidated Entity plans to adopt these standards in the 2008 financial year. The initial application of these standards is not expected to have an impact on the financial results of the Company and the Consolidated Entity.

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

The estimates and underlying assumptions used to support the book value of intangible assets, consisting of exploration and evaluation expenditure and mining rights, are reviewed to on an ongoing basis. These assumptions include life of mine, strip ratio, finance discount rate, selective mining, USD/AUD exchange rate, production costs and AUD selling price of WO_3.

Revisions to accounting estimates are recognised in the period in which the estimate is revised, if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

The accounting policies set out below have been applied consistently to all periods presented in the consolidated financial report for the purposes of the Australian Accounting Standards – AIFRS.

The accounting policies have been applied consistently by all entities in the Consolidated Entity.

(c) Basis of consolidation

Subsidiaries

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

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

Associates

Associates are those entities for which the Consolidated Entity has significant influence, but not control, over the financial and operating policies. The financial report includes the Consolidated Entity's share of the total recognised gains and losses of associates on an equity accounted basis, from the date that significant influence commences until the date that significant influence ceases. When the consolidated

(c) Basis of consolidation (continued)

entity's share of losses exceeds its interest in an associate, the Consolidated Entity's carrying amount is reduced to nil and recognition of further losses is discontinued except to the extent that the Consolidated Entity has incurred legal or constructive obligations or made payments on behalf of an associate.

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

Joint ventures

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

Jointly controlled entities

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

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

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

Jointly controlled operations and assets

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

Transactions eliminated on consolidation

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

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

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

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

(d) Property, plant and equipment

Owned assets

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

(d) Property, plant and equipment (continued)

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

Subsequent costs

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

Depreciation

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

	2007	2006
▪ plant and equipment	**2.5 to 7 years**	2.5 to 4 years

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

(e) Intangible assets

Mining Rights

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

Exploration and evaluation expenditure

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

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

i the expenditures are expected to be recouped through successful development and exploitation of the area of interest; or

ii activities in the area of interest have not at the reporting date, reached a stage which permits a reasonable assessment of the existence or other wise of economically recoverable reserves and active and significant operations in, or in relation to, the area of interest are continuing.

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

(e) Intangible assets (continued)

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

(f) Investments

Investments in debt and equity securities

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

(g) Trade and other receivables

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

(h) Cash and cash equivalents

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

(i) Inventories

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

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

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

(j) Impairment

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

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

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

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

(j) Impairment (continued)

Calculation of recoverable amount

The recoverable amount of other assets is the greater of their fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash generating unit to which the asset belongs.

Reversals of impairment

An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

(k) Earnings per share

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

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

(l) Employee benefits

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

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

Share-based payment transactions

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

The fair value of these options granted was recognised as an employee expense with the corresponding increase in equity. The fair value was measured at grant date when the employees became unconditionally entitled to the options. The fair value of the options granted was measured using a binomial lattice model, taking into account the terms and conditions upon which the options were granted. The amount recognised as an expense was adjusted to reflect the actual number of share options that vested adjusted for the market risk of not achieving Financial Close.

(m) Provisions

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

Site Restoration

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

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

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

Mine rehabilitation

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

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

At each reporting date the rehabilitation liability is re-measured in line with changes in discount rates, and timing or amount of the costs to be incurred. Changes in the liability relating to rehabilitation of mine infrastructure and dismantling obligations are added to or deducted from the related asset, other than the unwinding of the discount which is recognised as a finance cost in the income statement as it occurs.

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

(m) Provisions (continued)

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

(n) Trade and other payables

Trade and other payable are stated at amortised cost.

(o) Financing Income

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

(p) Income tax

Income tax on the income statement for the year comprises current and deferred tax. Income tax is recognised in the income statement except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

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

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

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

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

(q) Goods and services tax

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

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

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

(r) Derivatives

The financial entity does not hold any derivative financial instruments.

(s) Revenue

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

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

2 Segment reporting

Business and geographical segments

The Consolidated Entity operates predominantly as a tungsten explorer in Australia.

3 Revenue

	Consolidated		The Company	
	2007	2006	**2007**	2006
	$000	$000	**$000**	$000
Other income	**-**	-	**4**	2
Inter-company management fees	**-**	-	**5**	-
	-	-	**9**	2

4 Employee expenses

	Consolidated		The Company	
	2007	2006	**2007**	2006
	$000	$000	**$000**	$000
Salaries and fees	**425**	184	**425**	185
Superannuation	**29**	8	**29**	8
Share based payments	**-**	170	**-**	170
	454	362	**454**	363

The expenses recognised in the Income Statement consist of fees, wages and salaries. Share based payments were recorded in the previous financial year as follows:

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

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

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

* Based upon 10 year Commonwealth Government Bond rate

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

First Tranche Options

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

Second Tranche Options

Second tranche options may only be converted into fully paid ordinary shares during the period commencing on the second tranche closing performance share conversion date and ending five years after the issue date (24 May 2005), as approved by the shareholders at a general meeting on 24 May 2005. Terms of closing performance shares are summarised in Note 19

5 Auditors' remuneration

	Consolidated		The Company	
	2007	2006	**2007**	2006
	$	$	**$**	$
Audit services				
Auditors of the Company *KPMG Australia:*				
Audit and review of financial reports	**64,800**	38,000	**64,800**	38,000
Other regulatory audit services – AIFRS conversion	**-**	14,600	**-**	14,600
	64,800	52,600	**64,800**	52,600

6 Income tax benefit

	Consolidated		The Company	
Numerical reconciliation between tax benefit and pre-tax net loss	**2007**	2006	**2007**	2006
	$000	$000	**$000**	$000
Loss before tax	**(3,205)**	(808)	**(1,122)**	(716)
Prima facie Income tax benefit using the domestic corporation tax rate of 30%	**962**	242	**337**	215
(Decrease) / Increase in income tax benefit due to:				
Non-deductible expenses	**(658)**	(6)	**(33)**	(6)
Tax losses recognised/(derecognised)	**1,873**	(236)	**(153)**	(251)
Research and development expenditure tax rebate	**33**	-	**33**	-
Non-deductible impairment of investment in associated entity	**(30)**	-	**(30)**	-
Related party loan (written off)/forgiven	**-**	-	**(57)**	42
Equity raising costs written off for tax	**12**	-	**12**	-
Income tax benefit on pre-tax net loss	**2,192**	-	**109**	-
Recognised in the income statement				
Current year benefit	**3,085**	-	**109**	-
Deferred tax expense	**(893)**	-	**-**	-
	2,192	-	**109**	-

7 Earnings per share

Basic and diluted earning per share

The calculation of basic and diluted loss per share at 30 June 2007 was based on the loss attributable to ordinary shareholders of $1,013,000 (2006: $808,000) and a weighted average number of ordinary shares outstanding during the year ended 30 June 2007 of 37,953,936 (2006: 33,400,859), calculated as follows:

Profit attributable to ordinary shareholders

	Consolidated	
	2007	2006
	$000	$000
Loss for the period	**(1,013)**	(808)

Weighted average number of ordinary shares

	Number of shares (thousands)	
	2007	2006
Issued ordinary shares at 1 July	**35,970**	30,690
Effect of shares issued 16 December 2005	**-**	2,470
Effect of shares issued 27 January 2006	**-**	118
Effect of shares issued 10 March 2006	**-**	123
Effect of shares issued 18 December 2006	**1,690**	-
Effect of shares issued 7 February 2007	**160**	-
Effect of shares issued 15 March 2007	**134**	-
Weighted average number of ordinary shares at 30 June	**37,954**	33,401

The First and Second Tranche Closing Performance Shares and Options are not dilutive.

8 Cash and cash equivalents

	Consolidated		The Company	
	2007	2006	**2007**	2006
	$000	$000	**$000**	$000
Bank balances	**365**	523	**346**	499
Call deposits	**3,470**	2,800	**3,470**	2,800
Cash and cash equivalents in the statement of cash flows	**3,835**	3,323	**3,816**	3,299

9 Other receivables

Current				
Other receivables	**38**	-	**38**	-
Security deposit	**50**	-	**50**	-
Receivable from disposal of subsidiary	**-**	60	**-**	60
Prepayments	**11**	1	**11**	1
	99	61	**99**	61
Non current				
Receivables due from controlled entities at fair value	**-**	-	**2**	195
Security deposits	**33**	39	**-**	-
	33	39	**2**	195
	132	100	**101**	256

10 Inventories

Finished goods	**28**	28	**28**	28

11 Investments accounted for using the equity method

Investments in associates

	Consolidated		The Company	
	2007	2006	**2007**	2006
	$000	$000	**$000**	$000
Carrying amounts at the beginning of the financial year	**100**	100	**100**	100
Impairment of investment in associate	**(100)**	-	**(100)**	-
Carrying amounts at the end of the financial year	**-**	100	**-**	100

In the financial statements of the Company, investments in associates are accounted for at fair value and included with other financial assets. (Refer Note 14). The Consolidated Entity accounts for investments in associates using the equity method.

				Ownership interest	
Name	Principal activities	Country of incorporation	Reporting date	**2007**	2006
GTN Copper Technology Pty Ltd	Evaluation of copper projects using Intec technology	Australia	30 June	**36.3%**	36.3%

The Consolidated Entity has the following investments in associates:

	Revenues (100%)	Profit/ (loss) (100%)	Share of associate's net profit/(loss) recognised	Total Assets (100%)	Total Liabilities (100%)	Net assets as reported by associates (100%)	**Share of associate's net assets equity accounted**
	$000	$000	$000	$000	$000	$000	**$000**
2007							
GTN Copper Technology Pty Ltd	-	-	-	-	-	-	**-**
	-	**-**	**-**	**-**	**-**	**-**	**-**
2006							
GTN Copper Technology Pty Ltd	-	-	-	275	-	275	**100**
	-	-	-	275	-	275	**100**

12 Interest in joint venture operation

The Consolidated Entity has a 74.5% (2006: 74.5%) interest in the Eastern Feeder Joint Venture, an unincorporated joint venture whose principal activity is sapphire mining at Kings Plains, Inverell. For the year ended 30 June 2007, the contribution to the joint venture to the operating result of the Consolidated Entity was a loss of $12,000 (2006: loss of $12,000). Included in the assets and liabilities of the Consolidated Entity are the following assets and liabilities employed in the joint venture:

	Consolidated		The Company	
	2007	2006	**2007**	2006
	$000	$000	**$000**	$000
Current assets				
Cash assets	**18**	25	**-**	-
Total current assets	**18**	25	**-**	-
Non current assets				
Receivables	**33**	39	**-**	-
Exploration Expenditure	**-**	37	**-**	-
	33	76	**-**	-
Plant and equipment	**885**	885	**-**	-
Less accumulated depreciation	**(885)**	(885)	**-**	-
Total non current assets	**33**	76	**-**	-
Total assets	**51**	101	**-**	-
Current liabilities				
Trade creditors	**4**	4	**-**	-
Provision for mine rehabilitation	**47**	47	**-**	-
Total current liabilities	**51**	51	**-**	-
Total liabilities	**51**	51	**-**	-
Net assets	**-**	50	**-**	-

13 Deferred tax assets and liabilities

Recognised deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following:

	Assets		Liabilities		Net	
	2007	2006	**2007**	2006	**2007**	2006
Consolidated	**$000**	$000	**$000**	$000	**$000**	$000
Intangible assets	**-**	-	**6,850**	3,160	**6,850**	3,160
Provisions	**(22)**	(83)	**-**	-	**(22)**	(83)
Tax losses	**(3,777)**	(919)	**-**	-	**(3,777)**	(919)
Tax (assets)/liabilities	**(3,799)**	(1,002)	**6,850**	3,160	**3,051**	2,158
Set off of tax	**3,799**	1,002	**(3,799)**	(1,002)	**-**	-
Net tax (assets)/liabilities	**-**	-	**3,051**	2,158	**3,051**	2,158

	Assets		Liabilities		Net	
	2007	2006	**2007**	2006	**2007**	2006
The Company	**$000**	$000	**$000**	$000	**$000**	$000
Intangible assets	**-**	-	**1,768**	1,023	**1,768**	1,023
Provisions	**(8)**	(69)	**-**	-	**(8)**	(69)
Tax losses	**(3,768)**	(879)	**-**	-	**(3,768)**	(879)
Tax (assets)/liabilities	**(3,776)**	(948)	**1,768**	1,023	**(2,008)**	75
Set off of tax	**1,768**	948	**(1,768)**	(948)	**-**	-
Net tax (assets)/liabilities	**(2,008)**	-	**-**	75	**(2,008)**	75

14 Other Financial Assets

	Consolidated		The Company	
	2007	2006	**2007**	2006
	$000	$000	**$000**	$000
Non Current assets				
Shares in subsidiaries at cost	**-**	-	**16,863**	6,943
Investments in associates at fair value	**-**	-	**-**	100
	-	-	**16,863**	7,043

15 Property, Plant and equipment

	Consolidated			The Company		
	Land and buildings	Plant and equipment	**Total**	Land and buildings	Plant and equipment	**Total**
	$000	$000	**$000**	$000	$000	**$000**
Cost						
Balance at 1 July 2005	-	195	**195**	-	-	**-**
Additions	703	2	**705**	703	2	**705**
Balance at 30 June 2006	703	197	**900**	703	2	**705**
Balance at 1 July 2006	703	197	**900**	703	2	**705**
Additions	100	16	**116**	100	16	**116**
Balance at 30 June 2007	803	213	**1,016**	803	18	**821**
Depreciation						
Balance at 1 July 2005	-	(191)	**(191)**	-	-	**-**
Depreciation change for the year	-	(4)	**(4)**	-	-	**-**
Balance at 30 June 2006	-	(195)	**(195)**	-	-	**-**
Balance at 1 July 2006	-	(195)	**(195)**	-	-	**-**
Depreciation change for the year	-	(2)	**(2)**	-	(2)	**(2)**
Balance at 30 June 2007	-	(197)	**(197)**	-	(2)	**(2)**
Carrying amounts						
At 1 July 2005	-	4	**4**	-	-	**-**
At 30 June 2006	703	2	**705**	703	2	**705**
At 1 July 2006	703	2	**705**	703	2	**705**
At 30 June 2007	803	16	**819**	803	16	**819**

16 Intangible assets

	Consolidated			The Company		
	Exploration and evaluation	Mining Rights	**Total**	Exploration and evaluation	Mining Rights	**Total**
	$000	$000	$000	$000	$000	$000
Cost						
Balance at 1 July 2005	372	9,026	**9,398**	193	-	**193**
Additions	3,218	-	**3,218**	3,218	-	**3,218**
Balance at 30 June 2006	3,590	9,026	**12,616**	3,411	-	**3,411**
Balance at 1 July 2006	3,590	9,026	**12,616**	3,411	-	**3,411**
Write down of capitalised development costs	(178)	-	**(178)**	-	-	**-**
Intangible asset adjustment[1]	-	(2,083)	**(2,083)**	-	-	**-**
Additions[2]	2,559	12,896	**15,455**	2,559	-	**2,559**
Balance at 30 June 2007	5,971	19,839	**25,810**	5,970	-	**5,970**

Exploration and evaluation assets

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

[1] In accordance with Australian Accounting Standards, the consolidated entity has recorded an adjustment to intangible assets. This relates to the recognition of a deferred tax asset which arose on the acquisition of Australian Tungsten Pty Limited and qualified for recognition in the current year.

[2] As disclosed in Note 19 the additions to Mining Rights includes the tax affected contingent consideration recognised on acquisition of Australian Tungsten Pty Limited.

17 Trade and other payables

	Consolidated		The Company	
	2007	2006	**2007**	2006
	$000	$000	**$000**	$000
Current				
Trade payables	**261**	221	**261**	221
Other trade payables and accrued expenses	**44**	214	**40**	214
Amount payable to controlled entity	**-**	-	**2,083**	-
Other	**-**	1	**-**	1
	305	436	**2,384**	436

18 Provisions - current

	Consolidated			The Company		
	Mine rehabilitation	Employee Entitlements	**Total**	Mine rehabilitation	Employee Entitlements	**Total**
	$000	$000	**$000**	$000	$000	**$000**
Cost						
Balance at 1 July 2005	47	-	**47**	-	-	**-**
Provisions made during the year	230	-	**230**	230	-	**230**
Balance at 30 June 2006	277	-	**277**	230	-	**230**
Provisions (used) / made during the year	(220)	17	**(203)**	(220)	17	**(203)**
Balance at 30 June 2007	57	17	**74**	10	17	**27**

19 Capital and reserves

Share capital

	The Company	
	2007	2006
	Number of shares	Number of shares
Ordinary shares, fully paid		
On issue at 1 July	**35,970,026**	30,689,713
Share issue 24 May 2005	**-**	-
Share issue 16 December 2005	**-**	4,600,000
Share issue 27 January 2006	**-**	280,313
Share issue 10 March 2006	**-**	400,000
Share issue 15 December 2006	**3,179,364**	-
Share issue 7 February 2007	**408,611**	-
Share issue 14 March 2007	**457,000**	-
On issue at 30 June	**40,015,001**	35,970,026
First Tranche Closing Performance Shares, fully paid		
On issue at 1 July	**8,000,000**	8,000,000
On issue at 30 June	**8,000,000**	8,000,000
Second tranche Closing Performance Shares, fully paid		
On issue at 1 July	**8,000,000**	8,000,000
On issue at 30 June	**8,000,000**	8,000,000

19 Capital and reserves (continued)

	Consolidated		The Company	
	2007	2006	**2007**	2006
	$000	$000	**$000**	$000
Ordinary shares, fully paid				
Balance at beginning of year	**25,020**	19,942	**25,020**	19,942
5,280,313 ordinary fully paid shares issued for cash	**-**	5,280	**-**	5,280
4,044,975 ordinary fully paid shares issued for cash	**4,449**	-	**4,449**	-
Less capital raising costs	**(163)**	(202)	**(163)**	(202)
Balance at end of year	**29,306**	25,020	**29,306**	25,020
First Tranche Closing Performance Shares, fully paid				
Balance at beginning of year	**-**	-	**-**	-
Value ascribed as contingent consideration on acquisition of Australian Tungsten Pty Limited[1]	**4,960**	-	**4,960**	-
Balance at end of year	**4,960**	-	**4,960**	-
Second Tranche Closing Performance Shares, fully paid				
Balance at beginning of year	**-**	-	**-**	-
Value ascribed as contingent consideration on acquisition of Australian Tungsten Pty Limited	**4,960**	-	**4,960**	-
Balance at end of year	**4,960**	-	**4,960**	-

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

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

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[1] The Closing Performance Shares of the Company issued on 30 May 2005 are convertible into ordinary fully paid shares in accordance with the conditions disclosed below.

These shares represented consideration for the Company's acquisition of Australian Tungsten Pty Limited for which the conversion to ordinary shares is contingent on the King Island scheelite mine project achieving Financial Close.

At 30 June 2007, the Directors concluded that Financial Close was probable, triggering the recognition of the contingent consideration. This recognition of contingent consideration does not necessarily mean that these CPSs will be exercisable, as exercising these CPSs still requires the achievement of Financial Close.

As the consideration is in the form of equity, the additional value ascribed to the First and Second Tranche Closing Performance Shares was calculated, under the consolidated entity's accounting policies, by reference to the closing market price of the Company's ordinary shares at the date of issue, being 30 May 2005.

19 Capital and reserves (continued)

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

	Consolidated		The Company	
	2007	2006	**2007**	2006
	$000	$000	**$000**	$000
Total issued capital at end of year	**39,226**	25,020	**39,226**	25,020

Closing Performance Shares

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

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

19 Capital and reserves (continued)

(g) Ordinary shares issued on conversion of the CPSs will rank pari passu in all respects with other ordinary shares of the Company. The Company will apply for quotation on the ASX of all ordinary shares of the Company issued on conversion of CPSs.

Reserves

		Consolidated		The Company	
	Note	**2007**	2006	**2007**	2006
		$000	$000	**$000**	$000
Balance at 1 July		**170**	-	**170**	-
Share based payments	4	**-**	170	**-**	170
Balance at 30 June		**170**	170	**170**	170

20 Financial instruments

Effective interest rates and repricing analysis

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

Consolidated	Effective interest rate	**Total**	6 months or less	6-12 months	1-2 years	2-5 years	More than 5 years
	%	**$000**	$000	$000	$000	$000	$000
2007							
Cash and cash equivalents	6.2	**3,835**	3, 835	-	-	-	-
2006							
Cash and cash equivalents	5.8	**3,323**	3,323	-	-	-	-
The Company							
2007							
Cash and cash equivalents	6.2	**3,816**	3,816	-	-	-	-
2006							
Cash and cash equivalents	5.8	**3,299**	3,299	-	-	-	-

Fair values

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

Consolidated	Note	**Carrying amount 2007 $000**	**Fair value 2007 $000**	Carrying amount 2006 $000	Fair value 2006 $000
Trade and other receivables	9	**132**	**132**	100	100
Cash and cash equivalents	8	**3,835**	**3,835**	3,323	3,323
Trade and other payables	17	**(305)**	**(305)**	(436)	(436)
		3,662	**3,662**	2,987	2,987
The Company					
Trade and other receivables	9	**101**	**101**	256	256
Cash and cash equivalents	8	**3,816**	**3,816**	3,299	3,299
Trade and other payables	17	**(2,384)**	**(2,384)**	(436)	(436)
		1,533	**1,533**	3,119	3,119

21 Lease and exploration expenditure commitments

	Consolidated		The Company	
	2007	2006	**2007**	2006
	$000	$000	**$000**	$000
Lease commitments				
Non-cancellable operating lease				
Contracted but not provided for and payable:				
Within one year	**26**	-	**26**	-
One year or later and not later than five years	**11**	-	**11**	-
Later than five years	**-**	-	**-**	-
	37	-	**37**	-

This lease is a two year office lease expiring 18 December 2008.

Exploration expenditure commitments

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

	Consolidated		The Company	
	2007	2006	**2007**	2006
	$000	$000	**$000**	$000
Within one year	**168**	572	**-**	-
One year or later and not later than five years	**-**	43	**-**	-
Later than five years	**-**	-	**-**	-
	168	615	**-**	-

22 Consolidated entities

	Country of incorporation	Ownership interest **2007 %**	2006 %
Parent entity			
King Island Scheelite Limited	Australia		
Subsidiaries			
Seraph Sapphires Pty Ltd (deregistered)	Australia	**-**	100
GTN Tanzania Pty Ltd	Tanzania	**100**	100
GTN Operations Pty Ltd	Tanzania	**65**	65
Eastern Feeder Holdings Pty Ltd	Australia	**100**	100
Australian Tungsten Pty Ltd	Australia	**100**	100

In the financial statement of the Company, investments in controlled entities and associates are measured at cost and included with other financial assets. Refer to note 14.

23 Reconciliation of cash flows from operating activities

	Consolidated		The Company	
	2007 $000	2006 $000	**2007 $000**	2006 $000
Cash flows from operating activities				
Loss for the year	**(1,013)**	(808)	**(1,013)**	(716)
Adjustments for:				
Proceeds from sale of property plant & equipment	**-**	(4)	**-**	-
Proceeds from sale of controlled entities	**-**	(90)	**-**	(90)
Payments for security deposits	**44**	15	**50**	-
Depreciation and impairment	**2**	4	**2**	-
Write down of capitalised development costs	**178**	-	**-**	-
Impairment of investment in associate	**100**	-	**100**	-
Share based payments	**-**	170	**-**	170
Operating loss before changes in working capital and provisions	**(689)**	(713)	**(861)**	(636)
(Increase)/decrease in receivables	**(43)**	228	**146**	284
(Increase)/decrease in inventories	**-**	-	**-**	(28)
(Increase)/decrease in intangibles	**(893)**	-	**-**	-
(Increase)/ decrease in deferred tax asset	**-**	-	**(2,008)**	-
Increase/ (decrease) in payables	**(191)**	(167)	**1,889**	(260)
Increase/ (decrease) in provisions	**(193)**	230	**(194)**	230
Increase/ (decrease) in deferred tax liability	**893**	-	**(75)**	-
Net cash used in operating activities	**(1,116)**	(422)	**(1,103)**	(410)

24 Key management personnel disclosures

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

Non-Executive Directors

Anthony Haggarty (appointed Chairman on 22 November 2006)

Robin Morritt

Andrew Plummer (appointed Director on 1 March 2006)

Raymond Soper (retired as Chairman on 22 November 2006 and as Director on 31 March 2007)

Chief Executive Officer

Nicholas Lambeth (appointed CEO 26 September 2006)

Total remuneration for all non-executive directors, was last voted upon by shareholders in March 2004. Directors' base fees are $28,776 per annum (2006: $28,776 p.a.). The Chairman receives $33,776 p.a.

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

Individual directors and executive compensation disclosures

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

Contract terms and conditions

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

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

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

Mr Haggarty (Non-Executive Chairman)
Mr Haggarty, or an entity controlled by Mr. Haggarty, was paid at the rate of $26,400 p.a. plus 9% statutory superannuation to be a non-executive Director until 22 November 2006, when he replaced Mr. Soper as Chairman. During the period 23 November 2006 to 30 June 2007 an entity controlled by Mr. Haggarty was paid at the rate of $30,987 p.a. plus 9% statutory superannuation for Mr. Haggarty to be a non-executive Director and Chairman. Any further work on behalf of the Company is paid on a time incurred basis. No annual or long service leave accrues to Mr Haggarty. Details of this remuneration are set out below.

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

24 Key management personnel disclosures (continued)

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

Mr Soper (former Non-Executive)
Mr Soper, or an entity controlled by Mr. Soper, was paid at the rate of $30,987 p.a. plus 9% statutory superannuation to be a non-executive Director and Chairman during the period 1 July 2006 to 22 November 2006, when Mr. Soper retired as Chairman but remained a non-executive Director. An entity controlled by Mr. Soper was then paid $26,400 p.a. plus 9% statutory superannuation for Mr. Soper to be a non-executive Director for the period 23 November 2006 to 31 March 2007. No annual or long service leave accrues to Mr Soper. Any further work on behalf of the Company is paid on a time incurred basis. Details of this remuneration are set out below.

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

Mr. Nicholas Lambeth (Chief Executive Officer)
The chief executive officer's contract is summarised as follows:

- The annual remuneration package totals $330,000, inclusive of superannuation and any motor vehicle component plus performance based incentives;
- Performance based incentives are payable upon the achievement of certain milestones: financial close, signing of major construction contracts, construction 50% complete and successful commissioning;
- Upon achievement of all these milestones, the performance based incentive payment would total $160,000;
- A salary review is undertaken initially on 30 June 2007 and then 30 June each year;
- Hours of work are such time as is necessary to successfully carry out the duties of chief executive officer in a professional manner;
- Annual leave totals 4 weeks per annum;
- Long service leave is paid in accordance with the relevant legislation; and
- In the event of redundancy, the Company would pay 6 months of the annual remuneration package applicable at the time of termination.

Options issued to Directors and Executives

There were no options issued to Directors or Executives during the financial year. The following factors and assumptions were used in determining the fair value of all options granted in the previous financial year:

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

24 Key management personnel disclosures (continued)

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

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

Directors		*Number of options granted*	*Grant Dates*	*Number of options vested*	*Fair Value of Option at Grant Date*	*Exercise Price per Option*	*Expiry Date*
					cents	cents	
Mr. Ray Soper	**2007**	**-**	**-**	**-**	**-**	**-**	**-**
	2006	450,000	4 July 2005	450,000	17	0.001	3 July 2010
Mr. Kerry Heywood	**2007**	**-**	**-**	**-**	**-**	**-**	**-**
	2006	450,000	4 July 2005	450,000	17	0.001	3 July 2010

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

All options were fully vested in the previous financial year.

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

Directors	*Year*	*Granted in year*	*Value of options*		*Total option value in year*
			Exercised in year	*Forfeited in year*	
		$	$	$	$
Mr. Ray Soper	**2007**	**-**	**-**	**-**	**-**
	2006	76,500	-	-	76,500
Mr. Kerry Heywood	**2007**	**-**	**-**	**-**	**-**
	2006	76,500	-	-	76,500

24 Key management personnel disclosures (continued)

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

		Short-term				Post-employment	Other long term	Termination benefits	Share-based payments	Total	Proportion of remuneration performance related	Value of options as proportion of remuneration %
		Salary & fees	Cash bonus	Non-monetary benefits	Total	Super benefits						
		$	$	$	$	$	$	$	$	$		
Directors												
A Haggarty[1]	**2007**	**29,076**	**-**	**-**	**29,076**	**2,617**	**-**	**-**	**-**	**31,693**	**-**	**-**
	2006	26,400	-	-	26,400	2,376	-	-	-	28,776	-	-
R Morritt	**2007**	**26,400**	**-**	**-**	**26,400**	**2,376**	**-**	**-**	**-**	**28,776**	**-**	**-**
	2006	26,400	-	-	26,400	2,376	-	-	-	28,776	-	-
A Plummer	**2007**	**26,400**	**-**	**-**	**26,400**	**2,376**	**-**	**-**	**-**	**28,776**	**-**	**-**
(appointed 1 March 2006)[2]	2006	8,800	-	-	8,800	792	-	-	-	9,592	-	-
R Soper (retired 31 March 2007)[3]	**2007**	**122,249**	**-**	**-**	**122,249**	**1,954**	**-**	**-**	**-**	**124,203**	**-**	**-**
	2006	122,679	-	-	122,679	2,789	-	-	76,500	201,968	100%	100%
K Heywood (CEO resigned 30 June 2005)	**2007**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
	2006	-	-	-	-	-	-	-	76,500	76,500	100%	100%
Executive												
N Lambeth (CEO appointed 26 September 2006)	**2007**	**220,912**	**-**	**-**	**220,912**	**19,882**	**-**	**-**	**-**	**240,794**	**-**	**-**
	2006	-	-	-	-	-	-	-	-	-	-	-
Total compensation (Consolidated Entity and Company)	**2007**	**425,037**	**-**	**-**	**425,037**	**29,205**	**-**	**-**	**-**	**454,242**		
	2006	184,279	-	-	184,279	8,333	-	-	153,000	345,612		

1 For the year ended 30 June 2007 the Company paid $46,339 (2006 $46,627) to companies associated with Mr. Haggarty for director's fees $31,693 (2006 $28,776); office sub-rental and office supplies $14,191 (2006 $ 5,501) and consulting services $455 (2006 $12,350).

2 For the year ended 30 June 2007 the Company paid $14,388 (2006 $Nil) to companies associated with Mr. Plummer for director's fees.

3 For the year ended 30 June 2007 the Company paid $124,203 (2006 $125,468) to companies associated with Mr. Soper for director's fees $23,665 (2006 $33,776); and consulting services $100,538 (2006 $91,692).

24 Key management personnel disclosures (continued)

Movements in securities

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

Directors	Securities	Held at 1 July	Acquired	Sold	Other Changes	Held at 30 June
Year ended 30 June 2007						
Raymond Soper	Fully paid ordinary shares	162,512	-	-	(162,512)[1]	-
	First tranche options	196,875	-	-	(196,875)[1]	-
	Second tranche options	253,125	-	-	(253,125)[1]	-
Anthony Haggarty	Fully paid ordinary shares	3,642,889	7,700[2] 367,000[3]	-	-	4,017,589
Robin Morritt	Fully paid ordinary shares	5,555,000	-	-	-	5,555,000
	First tranche closing performance shares	4,000,000				4,000,000
	Second tranche closing performance shares	4,000,000				4,000,000
Andrew Plummer	Fully paid ordinary shares	794,146	90,000[3]	-	-	884,146
Year ended 30 June 2006						
Raymond Soper	Fully paid ordinary shares	112,512	50,000[4]	-		162,512
	First tranche options	-	196,875[4]	-		196,875
	Second tranche options	-	253,125[4]	-		253,125
Anthony Haggarty	Fully paid ordinary shares	3,392,889	250,000[3]	-		3,642,889
Robin Morritt	Fully paid ordinary shares	5,500,000	55,000[3]	-		5,555,000
	First tranche closing performance shares	4,000,000	-	-		4,000,000
	Second tranche closing performance shares	4,000,000	-	-		4,000,000
Andrew Plummer	Fully paid ordinary shares	-	582,885[2]	-	211,261[5]	794,146

The terms and conditions of the grant of first and second tranche options are outlined in Note 4 to the accounts; and terms and conditions of closing performance shares are outlined in Note 19.

1 Mr. Soper retired as a Director on 31 March 2007.

2 On market purchase

3 Ordinary fully paid shares were issued during the year in accordance with the Company's market placement and share purchase plan.

4 Options were issued in accordance with the general meeting of members held on 24 May 2005 which approved the Company's acquisition of all the issued shares of Australian Tungsten Pty Ltd.

5 Mr. Plummer was appointed as a Director on 1 March 2006.

24 Key management personnel disclosures (continued)

Equity holdings and transactions

Directors' transactions with the Company or its controlled entities

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

	Consolidated		The Company	
	2007	2006	**2007**	2006
	$	$	**$**	$
Accounts Payable - current				
Raymond Soper	**-**	29,250	**-**	29,250
Anthony Haggarty	**-**	28,776	**-**	28,776
Robin Morritt	**-**	594	**-**	594
Andrew Plummer	**-**	9,592	**-**	9,592

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

During the financial year, MEM Resources Pty Ltd (2007) and Excel Coal Limited (2006) rendered accounting business consulting services, sub-let office space and provided sundry office support services to the Company. These charges were made to the Company on normal terms and conditions and in the ordinary course of business. Mr. Haggarty is a director of MEM Resources Pty Ltd and Messrs Haggarty and Plummer were directors of Excel Coal Limited. Following are details of these charges:

	Consolidated		The Company	
	2007	2006	**2007**	2006
	$	$	**$**	$
Office rent and supplies	**14,646**	5,501	**14,646**	5,501
Consulting	**-**	12,350	**-**	12,350
	14,646	17,851	**14,646**	17,851

25 Non key management personnel disclosures

Identity of related parties

The Consolidated Entity has a related party relationship with its subsidiaries (see note 22), associates (see note 11), joint venture (see note 12) and with its directors and executive officers (see note 24).

Other related party transactions

The classes of non-director related parties are:

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

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

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

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

	Note	Consolidated		The Company	
		2007	2006	**2007**	2006
		$000	$000	**$000**	$000
Receivables					
Current	9	**-**	-	**2**	195
Payables					
Current	17	**-**	-	**2,083**	-

Partly owned controlled entities

Details of interests in partly owned controlled entities are set out in Note 22.

26 Contingencies

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

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

The Environmental Protection Agency (EPA) issued a request in November 2004 for further analysis of the mill site at Herberton in Queensland, the location of a former tin operation of the Consolidated Entity. Following testing, it was determined that further rehabilitation of the site was required. The consolidated

26 Contingencies (continued)

entity has yet to finalise the rectification required with the EPA and local council. The directors believed that the total cost of such work should not exceed $230,000 and, during 2006, the Company provided $230,000 for the rehabilitation of Herberton. During the year ended 30 June 2007, payments totalling $166,000 were applied to this rehabilitation provision and $54,000 was reversed. Directors believe that the cost of this work will not exceed the balance of this provision, which totals $10,000 at 30 June 2007.

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

The Consolidated Entity has lodged security bonds totalling $32,780 (2006: $38,740) to the DMR as mining security deposits.

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

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

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

During the year ended 30 June 2007, the Company obtained a permit for planning and development approval to carry on an extractive industry at the mining tenement and, as agreed, paid $100,000 net of GST to the vendor.

The Company has also agreed to pay an additional $100,000 when the Company commences re-development construction of the tenement, including commencement of infrastructure construction.

27 Subsequent events

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

Eastern Feeder Joint Venture

The Company has agreed to sell all the shares it owns in Eastern Feeder Holdings Pty Ltd , which has a 74.5% interest in the Yarandoo sapphire mining operation located near Inverell New South Wales. The Yarandoo tenements are at Yarandoo (tenement AL2) and Narranvale (tenement ALA 29).

As consideration for this share sale, the purchaser agreed to:

(c) Pay the Company a royalty at the rate of 5% of gross proceeds from sale of sapphires from the tenements for the royalty period commencing on the completion date for the period that sapphires are mined, extracted or taken from Yarandoo and Narranvale; and
(d) Acquire the liabilities, arising before or after completion, in Eastern Feeder Holdings Pty Ltd, including any rehabilitation obligations with respect to the Yarandoo and Naranvale tenements.

At the date of this report, whilst it has been agreed that these shares would be transferred, completion has not yet occurred and at 30 June 2007, capitalised development costs of $178,000 were written off, as it was considered remote that there would be future receipt of royalty proceeds from the sale of sapphires from Yarandoo or Narranvale.

Hunan Nonferrous Metals Corporation ('HNC')

On 13 August 2007, the Company and HNC signed a Principles of Agreement, whereby:

- The Company would issue approximately 4.4 million new ordinary shares to HNC, which will be equivalent to approximately 10% of the Company's total issued capital, at a price of A$1.00 per share;
- One representative from HNC will be invited to join the Company's Board;
- An unincorporated Joint Venture to be formed between the Company and HNC, with each party having a 50% participation interest, to develop the Project and to share on-going operating and capital costs;
- HNC to provide debt funding to the Company to meet the Company's 50% contribution to the Project development cost. This loan to be on normal commercial terms with repayments of loan principal linked to a proportion of the Company's 50% share of net cash flow from the Project;
- The Company will manage construction and operation of the Project; and
- The Company and HNC will market the output from the Project on the most favourable terms available in the market.

It is expected that, subject to various approvals, that the appropriate documentation would be signed in the December quarter of 2007, and construction activities would commence immediately thereafter.

Directors' declaration

1 In the opinion of the directors of King Island Scheelite Limited (the Company):

(a) the financial statements and notes and the remuneration disclosures set out on pages 17 to 55, are in accordance with the Corporations Act 2001, including:

(i) giving a true and fair view of the Company's and Group's financial position as at 30 June 2007 and of their performance, for the financial year ended on that date; and

(ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the Corporations Regulations 2001;

(b) the financial report also complies with International Financial Reporting Standards as disclosed in note 1(a); and

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

2 The directors have been given the declarations required by Section 295A of the Corporations Act 2001 from the chief executive officer and chief financial officer for the financial year ended 30 June 2007.

Signed in accordance with a resolution of the directors.

Anthony Haggarty

Director

Sydney

25 September 2007

KPMG

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

To: the directors of King Island Scheelite Limited

I declare that, to the best of my knowledge and belief, in relation to the audit for the financial year ended 30 June 2007 there have been:

(i) no contraventions of the auditor independence requirements as set out in the Corporations Act 2001 in relation to the audit; and

(ii) no contraventions of any applicable code of professional conduct in relation to the audit.

KPMG

KPMG

Anthony Jones
Partner

Sydney

25 September 2007

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KPMG

Independent auditor's report to the members of King Island Scheelite Limited

Report on the financial report

We have audited the accompanying financial report of King Island Scheelite Limited (the Company), which comprises the balance sheets as at 30 June 2007, and the income statements, statements of changes in equity and cash flow statements for the year ended on that date, a summary of significant accounting policies and other explanatory notes 1 to 27 and the directors' declaration set out on pages 17 to 56 of the Group comprising the company and the entities it controlled at the year's end or from time to time during the financial year.

Directors' responsibility for the financial report

The directors of the company are responsible for the preparation and fair presentation of the financial report in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Act 2001*. This responsibility includes establishing and maintaining internal control relevant to the preparation and fair presentation of the financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances. In note 1, the directors also state, in accordance with Australian Accounting Standard AASB 101 *Presentation of Financial Statements*, that the financial report, comprising the financial statements and notes, 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. These Auditing 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.

We performed the procedures to assess whether in all material respects the financial report presents fairly, in accordance with the *Corporations Act 2001* and Australian Accounting Standards (including the Australian Accounting Interpretations), a view which is consistent with our understanding of the Company's and the Group's financial position and of their performance.

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

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KPMG

Auditor's opinion

In our opinion:

(a) the financial report of King Island Scheelite Limited is in accordance with the Corporations Act 2001, including:

(i) giving a true and fair view of the Company's and the Group's financial position as at 30 June 2007 and of their performance for the year ended on that date; and

(ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the Corporations Regulations 2001.

(b) the financial report also complies with International Financial Reporting Standards as disclosed in note 1.

KPMG

KPMG

Anthony Jones

Partner

Sydney

25 September 2007

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King Island Scheelite Limited Annual Financial Report 30 June 2007

Shareholder Information

At 31 August 2007 issued capital was 40,015,001ordinary fully paid shares held by 775 holders.
At a general meeting on a show of hands, each shareholder present has one vote and on a poll each shareholder present has:

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

20 Largest Holders of Ordinary Shares and their Holdings at 31 August 2007.

		Ordinary Shares	
		Number	Proportion Of Issued Shares
1	CATHERINE MORRITT	5,555,000	13.9%
2	ABEX RESOURCES AUSTRALIA PTY LTD	4,974,676	12.4%
3	THE GLEN RURAL PTY LTD	3,994,504	10.0%
4	ROBYN ELIZABETH GIBSON	3,201,686	8.0%
5	ANZ NOMINEES PTY LTD	2,495,067	6.2%
6	CHRYSALIS INVESTMENTS PTY LTD	2,249,922	5.6%
7	INVIA CUSTODIAN PTY LIMITED	1,238,364	3.1%
8	SERLETT PTY LTD	975,208	2.4%
9	CHRIS ELLIS COAL SERVICES PTY LTD	932,775	2.3%
10	VICTOR JOHN PLUMMER	802,382	2.0%
11	ANDREW HENDERSON PLUMMER	744,146	1.9%
12	RIGI INVESTMENTS PTY LTD	511,000	1.3%
13	ROBERT SLADE FORBES	500,000	1.2%
14	MOBUCK INVESTMENTS PTY LTD	482,777	1.2%
15	VIEWADE PTY LIMITED	474,090	1.2%
16	FORBAR CUSTODIANS LIMTED	400,000	1.0%
17	ROGER MASSY-GREENE	365,267	0.9%
18	GOH GEOK KHIM	300,000	0.7%
19	SOCIETE GENERALE AUSTRALIA BRANCH	300,000	0.7%
20	LINDWAY INVESTMENTS PTY LIMITED	214,545	0.5%
	Total top 20 Ordinary Shareholders	30,711,409	76.5%

Distribution of Holders and Holdings at 31 August 2007

	Ordinary Shares	
	Number Of Holders	Shares Held
1 - 1,000	340	73,746
1,001 - 5,000	155	474,524
5,001 - 10,000	88	722,791
10,001 - 100,000	160	6,039,391
100,001 and over	34	32,704,549
Total	777	40,015,001
Holders of less than a marketable parcel:	-	-

Shareholder Information (continued)

Substantial Shareholders

Substantial shareholders at 31 August 2007, as disclosed in Substantial Shareholder Notices given to the Company

	Number Of Shares	Proportion Of Issued Shares
Catherine Jeanne Morritt	5,555,000	14.19%
Abex Resources Australia Pty Ltd	4,474,676	12.68%
The Glen Rural Pty Ltd	4,017,589	10.04%
Robyn Elizabeth Gibson	3,218,141	8.0%

Unquoted Securities

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

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

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

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

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

(a) Mr. Ray Soper 253,125; and
(b) Mr. Kerry Heywood 253,125.

King Island Scheelite Limited Annual Financial Report 30 June 2007

Mining Tenements

The Company holds the following licences and lease:

	Interest
Retention Licence RL 2/1998 at Grassy, King Island (8 sq kms)	100%
Exploration Licence 19/2001 at Grassy, King Island (91 sq kms)	100%
Exploration Licence 16/2002 at Grassy, King Island (18 sq kms)	100%
Lease 1M/2006 at Grassy, King Island (544 hectares)	100%

Securities Exchange Listing

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

Share Registrar

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

GPO Box D182
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On-Market Buy Back

There is no on-market buy-back.