
King Island Scheelite Limited

ABN 40 004 681 734

Annual Report

For the year ended 30 June 2017

CORPORATE DIRECTORY

ABN 40 004 681 734

DIRECTORS

JOHANN JACOBS (EXECUTIVE CHAIRMAN)
CHRISTOPHER ELLIS (EXECUTIVE DIRECTOR)
ALLAN DAVIES (NON-EXECUTIVE DIRECTOR)

PROJECT MANAGER

ALVIN JOHNS

COMPANY SECRETARY AND CHIEF FINANCIAL OFFICER

IAN MORGAN

FINANCIAL CONTROLLER

SUE JOLLIFFE

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ASX

KING ISLAND SCHEELITE SHARES ARE LISTED ON THE AUSTRALIAN SECURITIES EXCHANGE (ASX CODE: KIS)

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DIRECTORS' REPORT

The Directors present their report, together with the financial statements of the consolidated entity (referred to hereafter as the 'consolidated entity' or the 'Group'), consisting of King Island Scheelite Limited (referred to hereafter as the 'Company' or 'parent entity') and the entities it controlled at the end of, or during, the year ended 30 June 2017.

DIRECTORS

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

Johann Jacobs (Executive Chairman)

B.Acc, MBL, FCA, FAICD

Appointed 30 November 2012

Johann has over 35 years' experience in the resources industry in Australia, South Africa and Indonesia. He was, until 4 June 2014, Non-Executive Chairman of ASX listed Magnis Resources Ltd (ASX: MNS) (formerly Uranex Limited), where he continues as a Non-Executive Director. In addition, he is Non-Executive Director of Australian Zircon NL, this Company was delisted on 1 January 2016 and has now been renamed Erinbar Limited. He was a Non-Executive Director of TW Holdings Limited (ASX: TWH) (resigned 18 November 2014). Johann is a Fellow member of the Institute of Chartered Accountants Australia and New Zealand and the Australian Institute of Company Directors.

Christopher Ellis (Executive Director)

B.Sc Hons

Appointed 8 November 2012

Christopher has over 35 years' experience in the exploration and mining industry in Australia and overseas. He was a founding member and Executive Director of coal mining company Excel Coal Limited, which became Australia's largest independent coal mining company before being acquired by Peabody Energy Inc. in October 2006. Christopher commenced his career in the UK coal industry, followed by positions within Shell's exploration group in Southern Africa and CRAE in Western Australia. He has also held senior positions for BP Coal (London and USA), Agipcoal Australia and for the Stratford Joint Venture. Christopher has core skills in geology, mining engineering and minerals processing, mainly in the coal industry with some experience in tungsten, gold, base metals and diamonds. He has had overall responsibility for the design and engineering of four new mines during his career with Excel. Christopher is a Non-Executive Director of Ausquest Limited (ASX: AQD).

Allan Davies (Independent Non-Executive Director)

B.E (Mining)

Appointed 30 September 2013

Allan is a mining engineer and has over 40 years' experience in the Australian and international coal and metalliferous mining industries. He is a registered mine manager in Australia and South Africa. Allan was a founding Director of Excel Coal Limited and as Executive Director – Operations for Excel Coal Limited, Allan had direct responsibility for operations and construction projects. From 2000 until early 2006, Allan worked for Patrick Corporation as Director, Operations. In addition, he was an Executive Director of Whitehaven Coal from February 2009 until November 2012 and a Non-Executive Director of QR Limited and QR National Limited (now called Aurizon Ltd) from October 2008 until December 2011. Previously a Non-Executive Director of Qube Holdings, he was appointed Chairman in June 2017 (ASX: QUB).

COMPANY SECRETARY

Ian Morgan

B Bus (NSW Institute of Technology), M Com Law (Macquarie University), Grad Dip App Fin (Securities Institute of Australia) CA, ACIS, MAICD, F Fin

Ian was appointed Company Secretary on 3 August 2005. He is a Chartered Accountant and Chartered Company Secretary with over 35 years' experience and provides secretarial and advisory services to a range of companies, including holding the position of Company Secretary for other listed public companies.

DIRECTORS' REPORT CONTINUED

NATURE OF OPERATIONS AND PRINCIPAL ACTIVITIES

The principal activity of the Group during the year was the continued review and re-engineering of previous Bankable Feasibility Studies working toward the progression of a Revised Definitive Feasibility Study, based on the extension of the open cut mine at Dolphin, on King Island. There were no significant changes in the nature of the activities of the Group during the financial year.

DIVIDENDS

There were no dividends paid or declared by the Company to members during or since the end of the financial year (2016 \$Nil).

REVIEW OF OPERATIONS

During the year ended 30 June 2017, the Company completed and submitted to the EPA, a Revised Environmental Assessment Report and examined the potential of staging the development of the Dolphin Mine, commencing with a lower production profile producing a lower grade concentrate.

Environmental Approvals

The additional studies, incorporating all up-to-date data, that were commenced in early 2016 were completed in the September 2016 quarter. These were included in the Revised Environmental Assessment Report that allows for an eight year opencut mine. This was submitted to the Environmental Protection Agency (EPA) in November 2016 for its review and ultimately its approval. This will enable the EPA to issue an Environmental Protection Notice (Amended Approvals), allowing the mine to be operated in accordance with the development plan.

Following their review, the EPA requested further information on certain aspects of the submission. Additional studies were required to be undertaken by Company consultants and comprehensive responses were provided to the EPA during the quarter ending June 2017. This resulted in additional issues being raised by the EPA, and these have also been responded to. The Company is hopeful that final approvals will be agreed with the EPA during the current quarter ended 30 September 2017.

Revised Definitive Feasibility Study (RDFS)

Work continued on the consolidation of recent studies into the RDFS. This work can only be completed when the final environmental approvals have been obtained.

Low Cost Option

Following attendance at the annual International Tungsten Industry Association Annual General Meeting in Stockholm in September 2016, the Board decided to examine the potential of staging the development of the Dolphin Mine commencing with a lower production profile producing a lower grade concentrate.

One of the low cost options considered was the reprocessing of tailings produced from previous mining operations. A brief scoping study on hydraulic mining of the tailings was undertaken in parallel with metallurgical work, however the ultra-fine nature of the scheelite combined with large quantities of similarly sized calcite prevented a concentrate of the required grade being made at an economically viable price in today's tungsten market. It was decided to suspend further testing of this resource, however there may still be an opportunity to blend some of the tailings with fresh ore to ensure optimum utilisation of all resources at Dolphin.

Ore Sorting

Sorting of potential plant feed ores by x-ray technology has been conducted in the past with some success. The Company has commenced a further program of work with a market-leading equipment supplier, with the aim of significantly improving potential ore feed grades. This technology also has the potential of converting some portion of current waste rock and low grade stockpiles to plant feed grades.

Preliminary results showed reasonable success in removing mining dilution material from scheelite ore but results for separating low grade from higher grade ore were inconsistent. This was also tested in the supplier's European test facility with more sophisticated equipment, but results remained inconsistent. It was decided to test additional samples in Australia from a different part of the orebody, the results of which are currently being analysed.

DIRECTORS' REPORT CONTINUED

Site Activity

Consistent with previous plans, the inflow of water, predominantly from rainwater runoff, is being managed by utilising a small pump on a regular basis to maintain a consistent water level in the sump.

CORPORATE

Financial

The Group incurred an operating loss after tax for the year to 30 June 2017 of \$854,338 (2016 \$1,268,215).

The Group retained a cash balance of \$1,502,394 at 30 June 2017 (2016 \$1,274,849).

Issue of Unsecured Redeemable Convertible Notes

To continue funding working capital until the Company proceeds with a larger fundraising to develop its Dolphin Project, committed funds were obtained through the issue of four unsecured redeemable convertible notes totalling A\$2,000,000 (Convertible Notes) in late 2015.

Tranche 1 for A\$1,000,000 was drawn during December 2015 by the Company, with Tranche 2 for the remaining A\$1,000,000 drawn during August 2016.

Principal terms of the Convertible Notes are:

- Face value of A\$500,000 each
- Interest rate of 8% per annum
- Unsecured
- Maturing 31 December 2017
- Conversion or repayment at the Company's sole discretion.

As required by ASX Listing Rules, the Company obtained approval from shareholders to issue Company shares on the conversion of these notes. A part conversion of the notes was made on 7 December 2016 for a total value of \$1,094,980 (23,397,000 shares), with a further part conversion made on 26 June 2017 for a total value of \$825,824 (20,960,000 shares). The balance of convertible notes including interest at 30 June 2017 was \$239,036. For further details see Note A6.

TUNGSTEN MARKET

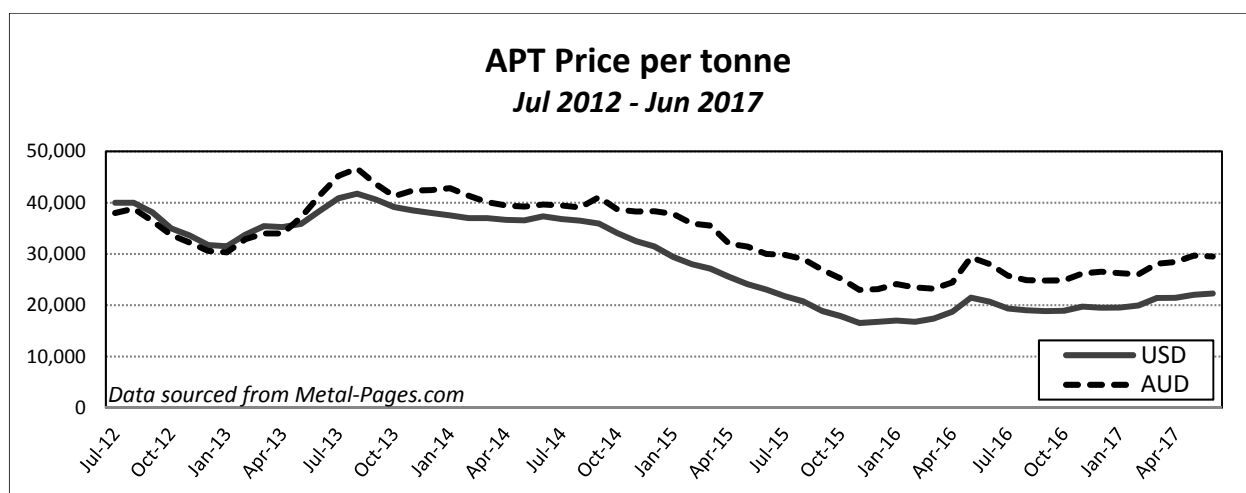
APT (Ammonium ParaTungstate) is the product used as a benchmark price for the sale of WO₃ concentrate, as it is regularly quoted in industry journals. As the concentrate acquired by the APT processors is conventionally a 65% WO₃ concentrate, the price net back to producers is somewhat lower than the reported APT price.

Over the last decade, the APT price achieved a high of US\$46,900 (A\$47,300) per tonne, in mid-2011 and again in mid-2013, however since then the price has declined to a low of US\$16,500 (A\$21,200) per tonne at the end of calendar 2015. Prices firmed from mid-2016 and in June 2017 were US\$22,300 (A\$29,500), the highest they have reached since June 2015.

During the 2016 financial year APT prices ranged from a high of US\$21,800 (A\$29,800) per tonne to a low of US\$16,500 (A\$23,000) per tonne. This compares to a trading range during financial year 2017 of a high of US\$22,300 (A\$29,500) per tonne in June 2017 and a low of US\$18,900 (A\$24,800) per tonne around September 2016. (Note: All prices are quoted as monthly average prices.)

Market commentators ascribe the weakness in the price to oversupply emanating out of China. Although the primary industry in that country is subject to strict quota allocations, set by government, producers of other minerals, where tungsten is a by-product, are not subject to these rules. High production rates of these materials is therefore causing oversupply in the tungsten market.

DIRECTORS' REPORT CONTINUED



Although these prices are all above our anticipated production costs, financing the project – both debt and equity – would be extremely difficult and risky. The major impact on the market has been an increase in supply from the dominant Chinese market.

OUTLOOK

The Company's revised development plan indicates improved project economics compared to previous studies. The key objective remains to bring the high-grade Dolphin tungsten deposit on King Island into production.

Next steps are:

- 1) Finalise environment approvals and obtain an Environmental Protection Notice (Amended Approvals).
- 2) Finalise studies relating to the low cost option currently being assessed.
- 3) Finalise the Definitive Feasibility Study.
- 4) Secure off-take arrangements.
- 5) Once the above actions have been completed, the Board will consider project approval and, if approved, will initiate project funding.
- 6) Engage with potential project financiers/ partners.

GOING CONCERN

The financial report has been prepared on the basis of a going concern. In order to commercialise the Dolphin Project to generate future revenues, additional funding will be required. If the Group is unable to continue as a going concern in the future, it may be required to make adjustments relating to the recoverability and classification of recorded asset amounts and classification of liabilities in order to realise its assets and extinguish its liabilities other than in the normal course of business and at amounts different from those stated.

Refer to Note A4 of the consolidated financial report for further information about going concern for the Group.

DIRECTORS' REPORT CONTINUED

BUSINESS RISKS

The Group's successful development of the tungsten Dolphin Project on King Island is subject to various business risks, including.

1. Approval for an extension to the Group's existing tenements
Tenement exploration and retention licences held by the Group require renewal or extension. All existing licences are current, with the latest renewals and extensions approved. There is no guarantee that the Group's licences would continue to be granted on terms that are acceptable, or at all, for future applications.¹
2. The Group will need to raise additional funds
The Group will require additional funds to proceed with future stages and development of its projects.
3. Commodity prices and exchange rate risk
If the Group's activities lead to production, future revenue will be derived through the sale of minerals which exposes the Group to commodity price risk. Commodity prices are dependent upon a number of factors which are outside of the Group's control. Commodity prices are usually denominated in US dollars whereas the income and expenditure of the Group is denominated in Australian dollars, which exposes the Group to fluctuations and volatility of the rate of exchange between the US dollar and the Australian dollar.
Fluctuations in commodity prices and the Australian dollar exchange rate could have a material effect on the financial and operating performance of the Group.
4. Land access and title risk
The Group has obligations in relation to expenditure levels, environmental matters for its tenements as well as responsibilities to various government entities and any landowners affected by its activities. A contravention of these obligations could affect the right to hold mining tenements in a given area. The Group's mining tenements may be affected by land access issues for any land the Group does not own.
5. Environmental risk
As part of the mining industry, the Group is subject to State and Federal legislation regarding environmental obligations and liabilities. The legislative and regulatory requirements impose significant environmental obligations on the Group in relation to its operations. Compliance with these obligations and any future obligations (such as any carbon tax or carbon pollution reduction scheme imposed by the government) could have a material adverse effect on the financial and operating performance of the Group.
6. Retention of key employees
The Group is highly dependent upon qualified, scientific, technical and managerial personnel. There is significant competition for qualified personnel in the Group's business. The Group may not be able to attract and retain the qualified personnel necessary for the development of its business. The failure to recruit additional key scientific, technical, managerial and other personnel in a timely manner could harm the Group's business.

EVENTS SUBSEQUENT TO THE REPORTING DATE

The Directors are not aware of any matter or circumstance that has arisen since the end of the financial year that has significantly affected or may significantly affect the Group's operations, the results of these operations or the Group's state of affairs in future financial years.

ENVIRONMENTAL REGULATION

The Board believes that the Group 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.

¹ Exploration Licence EL19/2001 at Grassy, King Island (91 sq kms) expires 14 December 2017. Application for renewal will be made at that time and the Company doesn't anticipate any issues with obtaining renewal. Mining Lease 1M/2006 at Grassy, King Island (544 hectares) expires 5 June 2029.

DIRECTORS' REPORT CONTINUED

DIRECTORS' MEETINGS

The numbers of Directors' meetings (including meetings of committees of Directors) where Directors were eligible to attend and attended in person or by alternate during the financial year by each of the Directors of the Company were:

	<i>Board Meetings</i>		<i>Audit Committee Meetings</i>	
	Eligible	Attended	Eligible	Attended
Johann Jacobs	5	5	2	2
Allan Davies	5	5	2	2
Christopher Ellis	5	5	2	2

DIRECTORS' INTERESTS

The relevant beneficial interest of each Director in the securities issued by the companies within the Group and other related bodies corporate, and notified by the Directors to the ASX in accordance with section 250G(1) of the *Corporations Act 2001 (Cth)* at the date of this report are:

<i>King Island Scheelite Limited Ordinary fully paid shares</i>	Number
Johann Jacobs	2,487,871
Christopher Ellis	48,209,220
Allan Davies	3,543,587

<i>King Island Scheelite Limited Unquoted Options</i>			Johann Jacobs	Allan Davies	Total
			Number	Number	Number
Exercise Price per share	Vesting Date	Expiry Date			
15 cents	1 January 2014	31 December 2018	1,000,000	1,000,000	2,000,000
22 cents	1 January 2015	31 December 2019	1,500,000	1,500,000	3,000,000
28 cents	1 January 2016	31 December 2020	2,000,000	2,000,000	4,000,000
			4,500,000	4,500,000	9,000,000

Each Option provides the right for the option holder to acquire one fully paid Share upon payment of each Exercise Price for each Share.

DIRECTORS' REPORT CONTINUED

REMUNERATION REPORT (AUDITED)

This report outlines the remuneration arrangements in place for key management personnel of the Group. Remuneration is referred to as compensation throughout this report.

Directors and key management personnel have authority and responsibility for planning, directing and controlling the activities of the Company and the Group.

Compensation levels for key management personnel of the Group will be competitively set to attract and retain appropriately qualified and experienced Directors, executives and future executives. Current remuneration levels are driven largely by the requirement to conserve cash within the Company. There were no remuneration consultants used to set the remuneration of key management personnel.

The compensation structures explained below are designed to attract suitably qualified candidates, reward the achievement of strategic objectives, and achieve the broader outcome of creation of value for shareholders. The compensation structures take into account:

- the capability and experience of the key management personnel
- the key management personnel's ability to control the Group's performance
- the Group's performance including:
 - the Group's earnings
 - the growth in share price and delivering constant returns on shareholder wealth
 - the amount of incentives within each key management person's compensation.

Compensation packages will include a mix of fixed and variable compensation, and short-term and long-term performance-based incentives.

In addition to their salaries, the Group also provides non-cash benefits to its key management personnel, and where applicable, contributes to the individual's elected post-employment superannuation plan on their behalf.

Contract Terms and Conditions

The determination of Directors' remuneration is made by the Board having regard to the current position of the Company, in that it is as yet not in production and continues to preserve cash as much as possible.

The Board may award additional remuneration to Directors called upon to perform extra services or make special exertions on behalf of the Company.

The Board reviews remuneration, so as to reflect current industry norms, and determines remuneration policies and practices generally, reviews and makes specific decisions on the remuneration packages and other terms of employment of its Directors and senior executives.

During the year ended 30 June 2014, a total of 9,000,000 unquoted options were granted to Directors. Refer to Note C2 for more details. 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.

Terms of Employment

Each Key Management Personnel's terms of employment are set out as follows.

Johann Jacobs (Chairman)

During the financial year ended 30 June 2017, an entity controlled by Mr Jacobs was paid at the rate of \$30,987 p.a. plus 9.5% statutory superannuation (2016 \$30,987 p.a. plus 9.5% statutory superannuation) for Mr Jacobs to be a Director and Chairman. Consultancy services to the Company are also agreed with the entity controlled by Mr Jacobs, for his services to be provided as required and charged on a per diem basis. This totalled \$60,000 in 2017 (\$122,100 in 2016), and was accrued at 30 June 2017. No annual or long service leave accrues to Mr Jacobs or his controlled entity.

DIRECTORS' REPORT CONTINUED

Christopher Ellis (Executive Director)

During the financial year ended 30 June 2017, Mr Ellis was paid at the rate of \$26,400 p.a. plus 9.5% statutory superannuation (2016 \$26,400 p.a. plus 9.5% statutory superannuation) to be a Director. Consultancy services to the Company are also agreed with the entity controlled by Mr Ellis, for his services to be provided as required and charged on a per diem basis. No annual or long service leave accrues to Mr Ellis or his controlled entity. During the financial year ended 30 June 2017, while Mr Ellis did perform consulting services, he did not charge for them (2016 \$Nil).

Allan Davies (Non-Executive Director)

During the financial year ended 30 June 2017, an entity controlled by Mr Davies was paid at the rate of \$26,400 p.a. plus 9.5% statutory superannuation (2016 \$26,400 p.a. plus 9.5% statutory superannuation) for Mr Davies to be a Non-Executive Director. Consultancy services to the Company are also agreed with the entity controlled by Mr Davies, for his services to be provided as required and charged on a per diem basis. Mr Davies did not perform any consulting services in the financial year ending 30 June 2017 (\$5,000 in 2016). No annual or long service leave accrues to Mr Davies or his controlled entity.

Consulting Services

The entities controlled by each Director are appointed to provide consulting work to the Company on the following terms and conditions.

Performance

Any consulting services are to be performed in a competent and professional manner with the standard of diligence and care normally employed by a properly qualified person in the performance of comparable duties and in accordance with generally accepted practices appropriate to the activities undertaken.

Exclusivity

Nothing prevents the entity each Director controls from providing or agreeing to provide to any other person, firm or company services the same as or similar to the consulting services, provided that the provision of such services does not in any way impair or hinder the performance of duties to the Company.

Consultancy Fee Rates

The Company pay the entity controlled by Mr Jacobs at the rate of \$2,100 per day, excluding GST. Notwithstanding this agreement, the annual cost for Mr Jacobs' consulting services is currently being accrued at \$60,000 per annum with payment being deferred. No payments have been made on Mr Jacobs' consulting fees accrued after March 2016.

The Company pay the entity controlled by Mr Davies at the rate of \$2,000 per day excluding GST.

The Company would pay the entity controlled by Mr Ellis at the rate of \$2,000 per day excluding GST.

Neither Mr Davies nor Mr Ellis have earned or been paid Consultancy Fees in accordance with these arrangements since June 2016.

Consultancy Fee Review

The Consultancy Fee shall be reviewed no later than one month after the end of each financial year or after such other period (being less than one year) agreed between the parties. In determining the amount of any increase in the Consultancy Fee, the Board (or any committee appointed by the Board to undertake the review) shall take into account performance in the period under review, the level of remuneration of executives in an equivalent position and any other factors which it considers relevant.

Independent Contractor

The entity each Director controls is an independent contractor and is not and shall not hold itself out as an employee or partner of the Company.

Employment Status

Each Director shall at all times be an employee of the entity which the Director controls and shall not hold himself out as an employee of the Company.

DIRECTORS' REPORT CONTINUED

Employment Costs and Entitlements

The entity controlled by each Director agrees that it shall be solely responsible for the payment of salaries and wages, holiday pay, sick pay, long service leave, any worker's compensation premiums or entitlements and all other employee benefits and entitlements (including, without limitation, superannuation contributions) to or on each Director's behalf, and for the making of all tax instalment deductions in respect of his remuneration, together with the payment of any other tax or levy which may arise out of the performance of consulting services.

Options Issued to Directors or Executives

On 6 December 2013 the Company granted a total of 9,000,000 share options to Messrs Jacobs and Davies. Details relating to these options are on page 9 and below.

The fair value of the options at grant date was determined using the Black-Scholes model. The following inputs were used in the measurement of the fair values at grant date.

	Tranche 1	Tranche 2	Tranche 3
Number	2,000,000	3,000,000	4,000,000
Fair value at grant date	\$136,800	\$198,900	\$269,600
Share price at grant date	11.5 cents	11.5 cents	11.5 cents
Exercise Price per Company Share	15 cents	22 cents	28 cents
Expected volatility (weighted average volatility)	75.9%	75.9%	75.9%
Grant Date	6 December 2013	6 December 2013	6 December 2013
Vesting Date	1 January 2014	1 January 2015	1 January 2016
Expiry Date	31 December 2018	31 December 2019	31 December 2020
Option Life	5.1 years	6.1 years	7.1 years
Exercise Period	5 years	5 years	5 years
Expected dividends	\$Nil	\$Nil	\$Nil
Risk-free interest rate	3.86%	3.86%	3.86%

Expected volatility is estimated by taking into account historic average share price volatility. The expense for the year ending 30 June 2017 totals \$Nil (2016 \$65,886).

Options were granted at no cost to the recipient.

There are no entitlements for the Company's option holders to participate in new issues of capital, which may be offered to the Company's existing ordinary shareholders.

No options were exercised during the financial year.

The Group prohibits those that are granted unvested or restricted share-based payments as part of their remuneration from entering into other arrangements that limit their exposure to losses that would result from share price decreases. Entering into such arrangement has been prohibited by law since 1 July 2011.

If at any time prior to the Expiry Date of any Options, a Director ceases to be a Director of the Company for any reason other than retirement, permanent disability, redundancy or death, all Options held by such Director or his permitted nominee (as the case may be), will, to the extent that they have not been exercised beforehand, automatically lapse on the first to occur of:

- (a) The expiry of the period of three (3) calendar months from the date of such occurrence, and
- (b) The Expiry Date.

DIRECTORS' REPORT CONTINUED

Consequences of Performance on Shareholders' Wealth

	2017	2016	2015	2014	2013
Loss for the financial year attributable to owners of the Company	\$854,338	\$1,268,215	\$3,289,362	\$2,029,842	\$1,083,074
Working capital at 30 June	\$1,235,396	\$176,603	\$1,366,425	\$938,614	\$825,424
Net assets at 30 June	\$2,389,816	\$1,342,860	\$2,545,531	\$1,969,151	\$1,846,873
Number of Shares on issue at 30 June	209,608,702	165,251,702	165,251,702	135,152,403	96,537,291
Share price at 30 June (cents per Share)	3.8	5.3	11.0	14.0	4.6
Market capitalisation at 30 June	\$7,965,131	\$8,758,340	\$18,177,687	\$18,921,336	\$4,440,715
Loss on capital employed for the financial year	(36%)	(94%)	(129%)	(103%)	(59%)
Termination benefits of key management persons		-	-	\$194,484	-
Options benefits of key management persons	-	\$65,886	\$223,860	\$315,554	-
Other compensation of key management persons	\$151,747	\$218,847	\$361,497	\$326,046	\$385,337
Total compensation of key management persons (Group and Company) for the financial year	\$151,747	\$284,733	\$585,357	\$836,084	\$385,337

During the last several years, the Company focused on the redevelopment of the tungsten Dolphin Project on King Island.

The Company has implemented corporate cost cutting measures, conducted a Value Engineering Study, updated a Revised Definitive Feasibility Study, dewatered the pit to allow for further drilling work, terminated the Balfour joint venture, and optimised its development plan. Further details are included in the Review of Operations on page 5.

Funds have been raised during the course of the last few years, with the latest funds provided by two major shareholders by way of unsecured convertible notes, recorded as debt in the Group's accounts. The majority of these funds were converted into shares during the year ending 30 June 2017. For further details see Note A6.

Over the past three years, the Group's loss from ordinary activity after income tax has varied mainly depending upon the level of exploration and evaluation work being done during the financial year.

DIRECTORS' REPORT CONTINUED

DIRECTORS' REMUNERATION FOR THE YEAR ENDED 30 JUNE 2017

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

		Short-term				Total	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	Consulting fees	Cash bonus	Non-monetary benefits		Superannuation benefits			Options			
		\$	\$	\$	\$	\$	\$	\$	\$	\$		%	
Directors													
J Jacobs	2017	30,987	60,000	-	-	90,987	2,944	-	-	-	93,931	-	-
	2016	30,987	122,100	-	-	153,087	2,944	-	-	32,943	188,974	-	17.4%
C Ellis	2017	26,400	-	-	-	26,400	2,508	-	-	-	28,908	-	-
	2016	26,400	-	-	-	26,400	2,508	-	-	-	28,908	-	-
A Davies	2017	26,400	-	-	-	26,400	2,508	-	-	-	28,908	-	-
	2016	26,400	5,000	-	-	31,400	2,508	-	-	32,943	66,851	-	49.3%
Total compensation	2017	83,787	60,000	-	-	143,787	7,960	-	-	-	151,747	-	-
	2016	83,787	127,100	-	-	210,887	7,960	-	-	65,886	284,733	-	23.1%

END OF REMUNERATION REPORT (AUDITED)

DIRECTORS' REPORT CONTINUED

SHARES UNDER OPTION

Details of options over ordinary shares in the Company that were granted as compensation to each key management person during the reporting period and details of options that vested during the reporting period are as follows:

Person	Grant Date	Fair value per option at grant date \$	Exercise price per option \$	Expiry date	Number of options granted	Number of vested options	
						2017	2016
J Jacobs	6 Dec 2013	6.84 cents	15 cents	31 Dec 2018	1,000,000	1,000,000	1,000,000
	6 Dec 2013	6.63 cents	22 cents	31 Dec 2019	1,500,000	1,500,000	1,500,000
	6 Dec 2013	6.74 cents	28 cents	31 Dec 2020	2,000,000	2,000,000	2,000,000
					4,500,000	4,500,000	4,500,000
A Davies	6 Dec 2013	6.84 cents	15 cents	31 Dec 2018	1,000,000	1,000,000	1,000,000
	6 Dec 2013	6.63 cents	22 cents	31 Dec 2019	1,500,000	1,500,000	1,500,000
	6 Dec 2013	6.74 cents	28 cents	31 Dec 2020	2,000,000	2,000,000	2,000,000
					4,500,000	4,500,000	4,500,000

Details of vesting profiles of the options granted as remuneration to each key management person of the Group and each of the named key management persons are detailed below:

Person	Grant Date	Date at which grant vests	Number	Vested		Lapsed ²	
				2017	2016	2017	2016
				%	%	%	%
J Jacobs	6 Dec 2013	1 Jan 2014	1,000,000	100.0	100.0	-	-
	6 Dec 2013	1 Jan 2015	1,500,000	100.0	100.0	-	-
	6 Dec 2013	1 Jan 2016	2,000,000	100.0	100.0	-	-
			4,500,000	100.0	100.0	-	-
A Davies	6 Dec 2013	1 Jan 2014	1,000,000	100.0	100.0	-	-
	6 Dec 2013	1 Jan 2015	1,500,000	100.0	100.0	-	-
	6 Dec 2013	1 Jan 2016	2,000,000	100.0	100.0	-	-
			4,500,000	100.0	100.0	-	-

Unissued ordinary shares of the Company under option at the date of this report are as follows:

Expiry date	Vesting date	Issue price of shares A\$	Number of shares under option
31 December 2018	1 January 2014	15 cents	2,000,000
31 December 2019	1 January 2015	22 cents	3,000,000
31 December 2020	1 January 2016	28 cents	4,000,000
			9,000,000

² The % lapsed in the year represents the reduction from the maximum number of options available to vest due to the options not being exercised and lapsing.

DIRECTORS' REPORT 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 executive, including their personally-related entities, is as follows:

Key Management Person	Balance of shares at 1 July or date of appointment, as applicable	Conversion of Redeemable Convertible Notes (Note C4)	Balance of shares at 30 June or date of ceasing, as applicable
	Number	Number	Number
<i>Fully paid ordinary shares</i>			
Year ended 30 June 2017			
Johann Jacobs	2,487,871	-	2,487,871
Christopher Ellis	26,078,220	22,131,000	48,209,220
Allan Davies	3,543,587	-	3,543,587
Year ended 30 June 2016			
Johann Jacobs	2,487,871	-	2,487,871
Christopher Ellis	26,078,220	-	26,078,220
Allan Davies	3,543,587	-	3,543,587

Key Management Person	Number of Options 1 July	Granted during the financial year	Expired during the financial year	Number of Options 30 June
<i>Unquoted Options</i>				
Year ended 30 June 2017				
Johann Jacobs	4,500,000	-	-	4,500,000
Allan Davies	4,500,000	-	-	4,500,000
	9,000,000	-	-	9,000,000
Year ended 30 June 2016				
Johann Jacobs	4,500,000	-	-	4,500,000
Allan Davies	4,500,000	-	-	4,500,000
	9,000,000	-	-	9,000,000

The terms and conditions of the options granted are outlined in Note C2 to the accounts.

INDEMNIFICATION AND INSURANCE OF OFFICERS AND AUDITOR

Indemnification

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 as a result of any third party proceedings arising from their conduct as Directors and Officers of the Company, other than dishonest or criminal intent, improper gain, or insider trading in relation to the Company.

The Company has not entered into an indemnification agreement with their auditor KPMG.

Insurance Premiums

Since the end of the previous financial year the Company has paid insurance premiums in respect of directors' and officers' liability. The insurance premiums relate to liabilities that may arise from their position, with the exception of conduct involving a wilful breach of duty or improper use of information or position to gain a personal advantage.

The Directors have not included details of the nature of the liabilities covered or the amount of the premium paid in respect of the directors' and officers' liability insurance as such disclosure is prohibited under the terms of the policy.

DIRECTORS' REPORT CONTINUED

AUDIT SERVICES

During the year ending 30 June 2017, the Group expensed an amount of \$41,200 (2016: \$41,200) to its auditor, KPMG and its related practices, for audit services provided.

NON-AUDIT SERVICES

The Group's auditor, KPMG, did not provide any other services in addition to their statutory audit duties during the year ending 30 June 2017.

ROUNDING OFF

The Company is not of a kind referred to in ASIC Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191 dated 24 March 2016 and as such, amounts in the Condensed Consolidated Financial Report and Directors' Report have been reported to the nearest dollar, unless otherwise stated.

LEAD AUDITOR'S INDEPENDENCE DECLARATION

The lead auditor's independence declaration made under Section 307C of the *Corporations Act 2001 (Cth)* is set out on page 41 and forms part of this Directors' Report.

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



Johann Jacobs
Chairman
Sydney
8 August 2017

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

YEAR ENDED 30 JUNE 2017

	Note	2017 \$	2016 \$
Other income	A13	113,299	187,709
Key management personnel expenses	C1	(155,614)	(285,709)
Administrative expenses		(353,297)	(663,949)
Exploration & evaluation expenses	D3	(362,045)	(479,594)
Results from operating activities		(757,657)	(1,241,543)
Financial income – interest		19,477	17,010
Financial expense – interest	A6	(116,158)	(43,682)
Net finance expense		(96,681)	(26,672)
Net loss attributable to members of the parent		(854,338)	(1,268,215)
Other comprehensive income for the financial year, net of income tax		-	-
Total comprehensive loss for the period		(854,338)	(1,268,215)
Losses per share		Cents	Cents
Basic losses per share attributable to ordinary equity holders	D2	(0.5)	(0.8)
Diluted losses per share attributable to ordinary equity holders	D2	(0.5)	(0.8)

The above Consolidated Statement of Profit or Loss and Other Comprehensive Income should be read in conjunction with the accompanying Notes.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 30 JUNE 2017

	Note	2017	2016
		\$	\$
Assets			
Cash and cash equivalents	A11	1,502,394	1,274,849
Prepayments and other receivables	A8	155,279	178,113
Total current assets		<u>1,657,673</u>	<u>1,452,962</u>
Prepayments and other receivables	A8	19,600	19,600
Property, plant and equipment	A12	1,134,820	1,146,657
Total non-current assets		<u>1,154,420</u>	<u>1,166,257</u>
Total assets		<u>2,812,093</u>	<u>2,619,219</u>
Liabilities			
Trade and other payables	A9	183,241	232,677
Convertible notes	A6	239,036	1,043,682
Total current liabilities		<u>422,277</u>	<u>1,276,359</u>
Total non-current liabilities		-	-
Total liabilities		<u>422,277</u>	<u>1,276,359</u>
Net assets		<u>2,389,816</u>	<u>1,342,860</u>
Equity			
Issued capital	A5	57,134,995	55,233,701
Reserves	A5	955,301	955,301
Accumulated losses		(55,700,480)	(54,846,142)
Total equity		<u>2,389,816</u>	<u>1,342,860</u>

The above Consolidated Statement of Financial Position should be read in conjunction with the accompanying Notes.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

YEAR ENDED 30 JUNE 2017

	Note	Issued Capital	Accumulated Losses	Share Option Reserve	Total Equity
		\$	\$	\$	\$
Balance at 1 July 2015		55,234,043	(53,577,927)	889,415	2,545,531
Loss for the year		-	(1,268,215)	-	(1,268,215)
Other comprehensive income for the year		-	-	-	-
Total comprehensive loss for the year		-	(1,268,215)	-	(1,268,215)
Transactions with owners in their capacity as owners:					
Costs relating to previous rights issue capital raising	A5	(342)	-	-	(342)
Equity settled share based payments	C2	-	-	65,886	65,886
		(342)	-	65,886	65,544
Balance at 1 July 2016		55,233,701	(54,846,142)	955,301	1,342,860
Loss for the year		-	(854,338)	-	(854,338)
Other comprehensive income for the year		-	(854,338)	-	(854,338)
Total comprehensive loss for the year		-	(854,338)	-	(854,338)
Transactions with owners in their capacity as owners:					
Costs relating to Convertible Notes conversions	A5	(19,510)	-	-	(19,510)
Equity settled share based payments	C2	-	-	-	-
Convertible Notes converted to shares	A6	1,920,804	-	-	1,920,804
		1,901,294	-	-	1,901,294
Balance at 30 June 2017		57,134,995	(55,700,480)	955,301	2,389,816

The above Consolidated Statement of Changes in Equity should be read in conjunction with the accompanying Notes.

CONSOLIDATED STATEMENT OF CASH FLOWS

YEAR ENDED 30 JUNE 2017

	Note	2017 \$	2016 \$
Cash flows used in operating activities			
Royalties received		132,438	93,602
Cash paid to suppliers		(909,837)	(1,478,300)
Cash used in operations		(777,399)	(1,384,698)
Research and development expenditure tax rebate		-	74,968
Interest received		19,477	17,010
Net cash used in operating activities	A7	(757,922)	(1,292,720)
Cash flows used in investing activities			
Payment made for property, plant & equipment		(655)	-
Net cash used in investing activities		(655)	-
Cash flows from financing activities			
Cost of issuing share capital	A5	(13,878)	(342)
Proceeds from unsecured convertible notes	A6	1,000,000	1,000,000
Net cash generated from financing activities		986,122	999,658
Net increase / (decrease) in cash and cash equivalents			
		227,545	(293,062)
Cash and cash equivalents at 1 July		1,274,849	1,567,911
Cash and cash equivalents at 30 June	A11	1,502,394	1,274,849

The above Consolidated Statement of Cash Flows should be read in conjunction with the accompanying Notes.

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 30 JUNE 2017

GENERAL INFORMATION

The financial statements cover King Island Scheelite Limited as a consolidated entity consisting of King Island Scheelite Limited and its subsidiaries. The financial statements are presented in Australian dollars, which is King Island Scheelite Limited's functional and presentation currency.

King Island Scheelite Limited is a listed public company limited by shares, incorporated and domiciled in Australia.

The financial statements were authorised for issue, in accordance with a resolution of Directors, on 8 August 2017.

The Notes to the consolidated financial statement are set out in the following main sections:

SECTION A – KEY FINANCIAL INFORMATION AND PREPARATION BASIS

SECTION B – RISK AND JUDGEMENT

SECTION C – KEY MANAGEMENT PERSONNEL AND RELATED PARTY DISCLOSURES

SECTION D – OTHER DISCLOSURES

SECTION A – KEY FINANCIAL INFORMATION AND PREPARATION BASIS

This section sets out the basis upon which the Group's financial statements have been prepared as a whole and explains the results and performance of the Group that the Directors consider most relevant in the context of the operations of the entity.

A1 STATEMENT OF COMPLIANCE

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

A2 BASIS OF PREPARATION

The financial report is prepared on the historical cost basis other than share-based transactions that are assessed at fair value.

The Company is not of a kind referred to in ASIC Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191 dated 24 March 2016 and as such, amounts in the Financial Report and Directors' Report have been reported to the nearest dollar, unless otherwise stated.

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 Group.

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.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

A3 BASIS OF CONSOLIDATION

Subsidiaries

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

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

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 consolidated financial statements.

Unrealised gains arising from transactions with associates and jointly controlled entities are eliminated to the extent of the Group'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 Group's interest in such entities is disposed of.

A4 GOING CONCERN

The financial report has been prepared on the basis of a going concern. This basis presumes that funds will be available to finance future operations and that the realisation of assets and settlement of liabilities will occur in the normal course of business. In order to commercialise the Dolphin Project to generate future revenues, additional funding will be required.

To fund working capital, the Company successfully obtained \$2,000,000 with the issue of four \$500,000 unsecured redeemable convertible notes. For further details see Note A6.

As at 30 June 2017, the Company had cash remaining of \$1,502,394.

A5 CAPITAL AND RESERVES

Share capital

Ordinary shares issued and fully paid	Number of shares	Issue Price Cents per share	\$
1 July 2015 balance	165,251,702		55,234,043
Rights offer:			
Less Share issue costs (relating to previous right issue)	-		(342)
30 June 2016 balance	165,251,702		55,233,701
Convertible Notes conversion 7 December 2016	23,397,000	4.68	1,094,980
Convertible Notes conversion 26 June 2017	20,960,000	3.94	825,824
Less costs relating to Convertible Notes conversions	-		(19,510)
30 June 2017 balance	209,608,702		57,134,995

Holders of ordinary shares are entitled to dividends as declared from time to time and are entitled to one vote per share at general meetings of the Company.

Ordinary shares have no par value.

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

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

Subject to ASX listing rules, the Company's Board may resolve that the whole or any portion of profits, reserve or other account which is available for distribution, be distributed to shareholder in the same proportions in which they would be entitled to receive it if distributed by way of dividend, or in accordance with relevant terms of issue of any shares or securities.

If the Company is wound up, whether voluntarily or otherwise, the liquidator may divide among all or any of the contributories, as the liquidator thinks fit, in specie or in kind, any part of the assets of the Company, and may vest any part of the assets of the Company in trustees for the benefit of all or any of the contributories as the liquidator thinks fit.

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

Information relating to the options, including details of options issued, exercised and lapsed during the financial year and options outstanding at the end of the reporting period, is set out in Note C2.

Share Based Payment Reserve

	2017 \$	2016 \$
Balance at 1 July	955,301	889,415
Option expense charge on 31 December 2014	-	-
Option expense charge on 30 June 2015	-	-
Option expense charge on 31 December 2015	-	65,530
Option expense charge on 30 June 2016	-	356
	-	65,886
Balance at 30 June	<u>955,301</u>	<u>955,301</u>

A6 CURRENT LIABILITY CONVERTIBLE NOTES

	Number	\$
Balance at 1 July 2015	-	-
Convertible note issued on 22 December 2015	1	500,000
Convertible note issued on 23 December 2015	1	500,000
	2	1,000,000
Accrued interest to 30 June 2016	-	43,682
Balance at 30 June 2016	2	1,043,682
Balance at 1 July 2016	2	1,043,682
Convertible note issued on 18 August 2016	1	500,000
Convertible note issued on 31 August 2016	1	500,000
	2	1,000,000
Convertible notes converted to shares on 7 December 2016	-	(1,094,980)
Convertible notes converted to shares on 26 June 2017	-	(825,824)
	-	(1,920,804)
Accrued interest to 30 June 2017	-	116,158
Balance at 30 June 2017	<u>4</u>	<u>239,036</u>

In December 2015, the Company successfully obtained \$2,000,000 committed funding with the issue of four \$500,000 unsecured redeemable convertible notes (Convertible Notes). In that month, the Company drew down \$1,000,000 and, in August 2016, drew down the remaining \$1,000,000. Conversion or repayment of the Convertible Notes by 31 December 2017 is at the Company's sole discretion.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

Principal terms of the Convertible Notes are:

- (a) Face value of \$500,000 each Convertible Note.
- (b) Interest rate of 8% per annum.
- (c) Unsecured.
- (d) Maturity date is 31 December 2017 or on being repaid, whichever is earlier.
- (e) Conversion or repayment is at the Company's sole discretion.
 - (1) The number of Shares to be issued on conversion of Convertible Notes is: Face value of the Convertible Notes being converted plus interest accrued divided by the Conversion Price
 - (2) Conversion Price is the lower of:
 - i) the VWAP³ of KIS shares over the 30 trading days ending on trading day before the conversion date, discounted by 15%; and
 - ii) if at any time during the conversion period, the Company raises at least \$10,000,000 in gross proceeds through equity markets (Capital Raise) and conversion is within three months of the Capital Raise, the price that is equal to the issue price under the Capital Raise discounted by 15%.
- (f) As required by the ASX Listing Rules, prior to any conversion the Company would request shareholder approval at a General Meeting.

At the Company's Annual General Meeting held on 2 November 2016, members resolved to approve the issue of Company shares on any conversion of up to four Notes, each with a face value of \$500,000, convertible into shares.

A part conversion of the Notes was made on 7 December 2016 for a total value of \$1,094,980, converting into 23,397,000 shares at 4.68 cents each. A second part conversion of the Notes was made on 26 June 2017 for a total value of \$825,824, converting into 20,960,000 shares at 3.94 cents each.

An entity related to Mr Christopher Ellis, a Director of the Company, subscribed for two Convertible Notes totalling \$1,000,000 and has received the proportional conversions into shares. For further details see Note C4.

Borrowings

Borrowings are classified as current liabilities unless the Company has an unconditional right to defer settlement of the liability for at least 12 months after the reporting period.

Debt Classification of Convertible Notes

Notwithstanding the Convertible Notes contractual obligations include many of the obligations of equity (unsecured and convertible to the Company's shares at the Company's sole discretion), as the Convertible Notes include a contractual obligation for the Company to deliver a variable number of its own shares, the Company has classified the Convertible Notes as debt in accordance with accounting standards.

A7 CASH FLOW RECONCILIATION

	2017	2016
Cash flows from operating activities	\$	\$
Net loss attributable to members of the parent	(854,338)	(1,268,215)
Adjustments for:		
Depreciation and impairment	12,492	12,849
Options expense	-	65,886
Interest expense	116,158	43,682
Operating loss before changes in working capital and provisions	(725,688)	(1,145,798)
Decrease / (Increase) in receivables	22,834	(49,299)
(Decrease) in payables	(55,068)	(97,623)
Net cash used in operating activities	(757,922)	(1,292,720)

³ Arithmetic average of the daily volume weighted average price of the ordinary shares in the Company traded on the ASX.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

A8 PREPAYMENTS AND OTHER RECEIVABLES

Other receivables are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition they are stated at amortised cost less impairment losses (see Note B3).

Prepayments are recognised at cost.

	2017	2016
	\$	\$
Current		
Other receivables	35,665	60,183
Prepayments	119,614	117,930
	<u>155,279</u>	<u>178,113</u>
Non-current		
Deposit	<u>19,600</u>	<u>19,600</u>

A9 CURRENT LIABILITY TRADE AND OTHER PAYABLES

Trade and other payables are recognised initially at fair value plus directly attributable transaction costs. Subsequent to initial recognition, these transactions are measured at amortised cost.

	2017	2016
	\$	\$
Trade payables	34,823	29,225
Accruals and other payables	148,418	203,452
	<u>183,241</u>	<u>232,677</u>

A10 PROVISIONS

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

No current provisions exist for the Group as at 30 June 2017.

Site Restoration

In accordance with the Group's environmental policy and applicable legal requirements, a provision for site restoration in respect of disturbed land is recognised when such land is disturbed. At this time, a best estimate of the total area of disturbance and present value restoration cost over the estimated mine is made. From this, an annual charge is derived which is reflected as an expense over the life of the mine and as an increase in the provision.

The balance of the provision is the accumulation of the annual charges, less any remedial work done, which is charged directly against the provision. The unwinding of the effect of discounting on the provision is recognised as a finance cost.

The Company is not yet in the mining or construction phase, and accordingly no provision currently exists.

A11 CASH AND CASH EQUIVALENTS

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

	2017	2016
	\$	\$
Bank balances	33,766	12,749
Call deposits	1,468,628	1,262,100
Cash and cash equivalents in the statements of cash flows	<u>1,502,394</u>	<u>1,274,849</u>

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

A12 PROPERTY, PLANT AND EQUIPMENT

Owned assets

Items of property, plant and equipment are stated at cost less accumulated depreciation and impairment losses (see Note B3).

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 Group 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 Group and the cost of the item can be measured reliably. All other costs are recognised in the statement of profit or loss and other comprehensive income as an expense as incurred.

Depreciation

Depreciation is charged to the statement of profit or loss and other comprehensive income 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:

	2017 5 to 40 years	2016 5 to 40 years	
▪ plant and equipment	Land \$	Plant and equipment \$	Total \$
Cost			
Balance at 1 July 2015	943,410	290,579	1,233,989
Additions	-	-	-
Balance at 30 June 2016	943,410	290,579	1,233,989
Balance at 1 July 2016	943,410	290,579	1,233,989
Additions	-	655	655
Balance at 30 June 2017	943,410	291,234	1,234,644
Depreciation			
Balance at 1 July 2015	-	(74,483)	(74,483)
Depreciation change for the year	-	(12,849)	(12,849)
Balance at 30 June 2016	-	(87,332)	(87,332)
Balance at 1 July 2016	-	(87,332)	(87,332)
Depreciation change for the year	-	(12,492)	(12,492)
Balance at 30 June 2017	-	(99,824)	(99,824)
Carrying amounts			
At 30 June 2016	943,410	203,247	1,146,657
At 30 June 2017	943,410	191,410	1,134,820

A13 OTHER INCOME

	2017 \$	2016 \$
Royalty income	113,299	112,741
Research and development expenditure tax rebate	-	74,968
	<u>113,299</u>	<u>187,709</u>

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

A14 COMMITMENTS

In order to maintain current rights of tenure to exploration tenements, the Group is required to perform minimum exploration work to meet the minimum expenditure requirements specified by the Tasmanian Government. 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 as follows.

Exploration expenditure commitments

	2017	2016
	\$	\$
Within one year	-	200,000
One year or later and not later than five years	175,000	-
Later than five years	-	-
	<u>175,000</u>	<u>200,000</u>

A15 SEGMENT REPORTING

An operating segment is a component of the Group that engages in business activities whose operating results are reviewed regularly by the Group's Board and for which discrete financial information is available.

The Group is involved solely in development of the Dolphin scheelite deposit and thus has a single operating segment.

Business and geographical segments

The results and financial position of the Company's single operating segment are prepared on a basis consistent with Australian Accounting Standards and thus no additional disclosures in relation to the revenues, profit or loss, assets and liabilities and other material items have been made. Entity-wide disclosures in relation to the Group's product and services and geographical areas are detailed below.

Products and services

The Group is in the process of developing the Dolphin scheelite deposit and, as such, currently provides no products for sale.

Geographical areas

The Company's exploration activities are located solely in Australia.

A16 CONTINGENCIES

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

Purchase price and royalty

The Group's Dolphin Project has a liability to a third party in respect of the acquisition of the tenements. If the decision to mine is taken and there is receipt of sufficient finance (at least \$1,000,000), the amount payable to the third party is \$250,000 plus an additional royalty of 1.5% on tungsten sale amounts received, after selling costs, transport costs for delivery to the buyer, and any taxes (other than income tax).

Adjoining Land

On 12 July 2005 the Company entered into an agreement with a third party vendor 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 mine and Grassy township. The terms of this purchase were an initial payment of \$700,000 plus an additional \$100,000 payable upon the Company obtaining a permit for planning and development approval to carry on an extractive industry, both of which have been paid in full. There is a further \$100,000 payable to the third party vendor contingent upon the commencement of operations.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

Hunan Nonferrous Metals Corporation Ltd

Under the agreed terms relating to termination of the Dolphin Joint Venture effective 17 December 2010, the Company's wholly owned subsidiary Australian Tungsten Pty Ltd has a liability to Hunan Nonferrous Metals Corporation Ltd which is contingent on the successful extraction of tungsten ore or concentrate from the Dolphin Project on King Island. The amount payable is a 2% royalty on gross revenue and the maximum royalty amount payable is \$3,900,000.

King Island Council

On 1 July 2011, the Company entered into two agreements with King Island Council that have since been registered under Part 5 of the Land Use Planning Approvals Act 1993 (TAS). These agreements provide that the Company pay, in each financial year, the amounts of \$50,000 inclusive of GST to the King Island Council for upgrading and improvement of Grassy infrastructure; and \$50,000 inclusive of GST to a Trust Fund, mainly for the purpose of upgrading and developing the community facilities in Grassy and surrounding areas.

The Company paid the first instalments of these in advance, a total of \$100,000 inclusive of GST, on 1 July 2011. These advances are to be deducted from future payments over five years at the rate of \$20,000 per annum inclusive of GST. Future payments will be made over the operational life of the mine.

A17 SUBSEQUENT EVENTS

The Directors are not aware of any matter or circumstance that has arisen since the end of the financial year that has significantly affected or may significantly affect the Group's operations, the results of these operations or the Group's state of affairs in future financial years.

SECTION B – RISK AND JUDGEMENT

This section outlines the key judgements, estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year. This section also outlines the significant financial risk the Group is exposed, to which the Directors would like to draw the attention of the readers.

B1 FINANCIAL RISK MANAGEMENT

Overview

This Note presents information about the Group's exposure to credit, liquidity and market risks, their objectives, policies and processes for measuring and managing risk, and the management of capital.

The Group does not use any form of derivatives as it is not at a level of exposure that requires the use of derivatives to hedge its exposure. Exposure limits are reviewed by management on a continuous basis. The Group does not enter into or trade financial instruments, including derivative financial instruments, for speculative purposes.

The Board of Directors has overall responsibility for the establishment and oversight of the risk management framework. Management monitors and manages the financial risks relating to the operations of the Group through regular reviews of the risks.

Credit Risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations.

Presently, the Group is in a preproduction phase, therefore does not earn revenue from sales and therefore has no accounts receivables. At the reporting date, there were no significant credit risks in relation to trade receivables.

For the Company, credit risk arises from receivables due from subsidiaries.

Cash and cash equivalents

The Group limits its exposure to credit risk by only investing in liquid securities and only with counterparties that have an acceptable credit rating.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

Exposure to credit risk

The carrying amount of the Group's financial assets represents the maximum credit exposure. The Group's maximum exposure to credit risk at the reporting date was:

	Note	Carrying Amount	
		2017	2016
		\$	\$
Current			
Cash and cash equivalents	A11	<u>1,502,394</u>	1,274,849
Receivables			
Prepayments	A8	119,614	117,930
Other	A8	<u>35,665</u>	60,183
		<u>155,279</u>	178,113
		<u>1,658,213</u>	1,452,962
Non-current			
Deposit	A8	<u>19,600</u>	19,600

Impairment losses

None of the Group's other receivables are past due (2016: \$Nil).

Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. The Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation.

The Group manages liquidity risk by maintaining adequate cash reserves from funds raised in the market and by continuously monitoring forecast and actual cash flows.

The decision on how the Company will raise future capital will depend on market conditions existing at that time.

The following are the contractual maturities of financial liabilities, including estimated interest payments and excluding the impact of netting agreements:

	Note	Carrying amount	Contractual cash flows	6 months or less
		\$	\$	\$
30 June 2017				
Trade and other payables	A9	183,241	183,241	183,241
Convertible notes*	A6	<u>239,036</u>	<u>239,036</u>	<u>239,036</u>
30 June 2016				
Trade and other payables	A9	232,677	232,677	232,677
Convertible notes*	A6	<u>1,043,682</u>	<u>1,043,682</u>	<u>1,043,682</u>

**Based on repayment of convertible notes at the discretion of the Company*

Market risk

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

Currency risk

The Group is not exposed to currency risk and at the reporting date the Group holds no financial assets or liabilities which are exposed to foreign currency risk.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

Interest rate risk

The Group is exposed to interest rate risk (primarily on its cash and cash equivalents), which is the risk that a financial instrument's value will fluctuate as a result of changes in the market interest rates on interest-bearing financial instruments. The Group does not use derivatives to mitigate these exposures.

The Group adopts a policy of ensuring that as far as possible it maintains excess cash and cash equivalents in short terms deposit at interest rates maturing over 30 day rolling periods.

Profile

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

	Carrying amount	
	2017	2016
	\$	\$
Fixed rate instruments		
Financial assets	-	-
Financial liabilities	239,036	1,043,682
	<u>239,036</u>	<u>1,043,682</u>
Variable rate instruments		
Financial assets	1,502,394	1,274,849
	<u>1,502,394</u>	<u>1,274,849</u>

Fair value sensitivity analysis for fixed rate instruments

The Group does not have, and therefore does not account for any financial assets and liabilities at fair value through profit or loss. Therefore a change in interest rates at the reporting date would not affect profit or loss.

Cash flow sensitivity analysis for variable rate instruments

A change of 100 basis points in interest rates at the end of the reporting period would have increased or decreased profit and loss by \$13,886 (2016: \$14,214). This analysis assumes that all other variables remain constant.

Commodity Price Risk

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

Capital and Reserves Management

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

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

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

B2 DETERMINATION OF FAIR VALUES

A number of the Group's accounting policies and disclosures require the determination of fair value, for both financial and non-financial assets and liabilities. Fair values have been determined for measurement and/or disclosure purposes based on the following methods. When applicable, further information about the assumptions made in determining fair values is disclosed in the Notes specific to that asset or liability.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

Trade and other receivables

The fair value of trade and other receivables, excluding construction work in progress, but including any service concession receivables, is estimated as the present value of future cash flows, discounted at the market rate of interest at the reporting date. This fair value is determined for disclosure purposes or when acquired in a business combination.

Non-derivative financial liabilities

Fair value, which is determined for disclosure purposes, is calculated based on the present value of future principal and interest cash flows, discounted at the market rate of interest at the reporting date.

Share-based payment transactions

The fair value of the share options is measured using the Black-Scholes formula. Measurement inputs include share price on measurement date, exercise price of the instrument, expected volatility (based on weighted average historic volatility adjusted for changes expected due to publicly available information), weighted average expected life of the instruments (based on historical experience and general option holder behaviour), expected dividends, and the risk-free interest rate (based on government bonds). Service and non-market performance conditions attached to the transactions are not taken into account in determining fair value.

B3 IMPAIRMENT

The carrying amounts of the Group's assets other than deferred tax assets (see Note D1), 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, or when facts and circumstances suggest the carrying amount may exceed its recoverable amount.

An impairment loss is recognised whenever the carrying amount of an asset exceeds its recoverable amount. Impairment losses are recognised in the statement of profit or loss and other comprehensive income 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 statement of profit or loss and other comprehensive income.

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

Calculation of recoverable amount

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

Reversals of impairment

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

B4 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 reporting date and the periods in which they reprice.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

	Effective interest rate %	Total \$	6 months or less \$	6-12 months \$	1-2 years \$	2-5 years \$	More than 5 years \$
2017							
Cash and cash equivalents	0.90	1,502,394	1,502,394	-	-	-	-
Convertible Notes	8.00	239,036	239,036	-	-	-	-
2016							
Cash and cash equivalents	1.24	1,274,849	1,274,849	-	-	-	-
Convertible Notes	8.00	1,043,682	1,043,682	-	-	-	-

Fair values

The fair values together with the carrying amounts shown in the statement of financial position are as follows:

	Note	Carrying amount 2017 \$	Fair value 2017 \$	Carrying amount 2016 \$	Fair value 2016 \$
Prepayments and other receivables	A8	174,879	174,879	197,713	197,713
Cash and cash equivalents	A11	1,502,394	1,502,394	1,274,849	1,274,849
Trade and other payables	A9	(183,241)	(183,241)	(232,677)	(232,677)
Convertible notes	A6	(239,036)	(239,036)	(1,043,682)	(1,043,682)
		1,254,996	1,254,996	196,203	196,203

SECTION C – KEY MANAGEMENT PERSONNEL AND RELATED PARTY DISCLOSURES

This section includes information about key management personnel's remunerations, related parties information and any transactions key management personnel or related parties may have had with the Group during the year.

C1 KEY MANAGEMENT PERSONNEL EXPENSES

Share-based payment transactions

The grant date fair value of equity-settled share-based payment awards granted is generally recognised as an expense, with a corresponding increase in equity, over the vesting period of the awards. The amount recognised as an expense is adjusted to reflect the number of awards for which the related service and non-market performance conditions are expected to be met, such that the amount ultimately recognised is based on the number of awards that meet the related service and non-market performance conditions at the vesting date.

Wages, salaries, and annual leave

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

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

	2017	2016
	\$	\$
Salaries and fees	83,787	83,787
Consulting charges	60,000	127,100
Options expense	-	65,886
Superannuation	7,960	7,960
Compensation for Key Management Personnel	151,747	284,733
Salary on-costs	3,867	976
	<u>155,614</u>	<u>285,709</u>

C2 SHARE-BASED PAYMENTS

During the financial year there were no shares issued on the exercise of options.

The following options were issued on 6 December 2013 to the Chairman and a Director, Messrs Jacobs and Davies, respectively:

- (a) 1,000,000 options to Mr Jacobs and 1,000,000 options to Mr Davies, vesting on 1 January 2014, for an Exercise Price of A\$ 15 cents each and with an Expiry Date of 31 December 2018;
- (b) 1,500,000 options to Mr Jacobs and 1,500,000 options to Mr Davies, vesting on 1 January 2015, for an Exercise Price of A\$ 22 cents each and with an Expiry Date of 31 December 2019; and
- (c) 2,000,000 options to Mr Jacobs and 2,000,000 options to Mr Davies, vesting on 1 January 2016, for an Exercise Price of A\$ 28 cents each and with an Expiry Date of 31 December 2020.

Each Option provides the right for the option holder to acquire one fully paid Share upon payment of each Exercise Price for each Share.

Options expenses for the year ended 30 June 2017 totalled \$Nil (2016 \$65,886).

C3 KEY MANAGEMENT PERSONNEL DISCLOSURES

Individual Directors and executive compensation disclosures

Information regarding individual Directors' and executives' compensation and some equity instruments disclosures are required by Corporation Regulation 2M.3.03 and provided in the remuneration report section of the Directors' Report.

Apart from the details disclosed in this Note, no Director has entered into a material contract with the Company or the Group since the end of the previous financial year and there were no material contracts involving Directors' interests existing at year-end.

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 the reporting date were as follows:

	2017	2016
	\$	\$
Accounts Payable - current		
Johann Jacobs	108,683	130,583
Christopher Ellis	-	14,454
Allan Davies	2,409	11,227

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.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

C4 RELATED PARTY DISCLOSURES

Identity of related parties

The Group has a related party relationship with its subsidiaries (see Note C5) and with its Directors and executive officers (see Note C3).

Other related party transactions

The classes of non-Director related parties are:

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

Convertible notes issued to related parties

During the year ended 30 June 2016, an entity related to Mr Christopher Ellis subscribed for two convertible notes totalling \$1,000,000.

On 23 December 2015, the Company drew down one \$500,000 convertible note and on 31 August 2016, the Company drew down the second \$500,000 convertible note.

On 7 December 2016, the Company converted a total of \$545,267 into 11,651,000 shares that were issued to Mr Ellis and on 26 June 2017, the Company converted a further total of \$412,912 into 10,480,000 shares that were issued to Mr Ellis, totalling 22,131,000 shares (\$958,179) for the year ended 30 June 2017.

As at 30 June 2017 and since drawdown on the first convertible notes, total interest accrued totalled \$80,041.

As at 30 June 2017, the face value of the convertible notes totalled \$121,862 and is repayable or convertible on or before maturity at 31 December 2017.

For further details see Note A6.

C5 CONSOLIDATED ENTITIES

	Country of incorporation	Ownership interest	
		2017 %	2016 %
Parent entity			
King Island Scheelite Limited	Australia		
Subsidiaries			
Scheelite Management Pty Ltd	Australia	100	100
GTN Tanzania Pty Ltd	Tanzania	100	100
GTN Operations Pty Ltd	Tanzania	65	65
Australian Tungsten Pty Ltd	Australia	100	100

In the financial statements of the Company, investments in controlled entities and associates are measured at cost and included with other financial assets.

There are no amounts attributable to non-controlling interests in GTN Operations Pty Ltd.

SECTION D – OTHER DISCLOSURES

This section includes information that the Directors do not consider to be significant in understanding the financial performance and position of the Group, but must be disclosed to comply with the Accounting Standards, the *Corporations Act 2001 (Cth)* or the Corporations Regulations.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

D1 INCOME TAX

Income tax is recognised in the statement of profit or loss and other comprehensive income except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

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

Deferred tax is recognised in respect of 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 reporting 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 recorded at each reporting date 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.

Tax consolidation

All members of the tax-consolidated group are taxed as a single entity from 1 July 2004. The head entity within the tax-consolidated group is King Island Scheelite Limited.

Current tax expense/ income, deferred tax liabilities and deferred tax assets arising from temporary differences of the members of the tax-consolidated group are recognised in the separate financial statements of the members of the tax-consolidated group using the "stand alone taxpayer" approach for each entity, as if it continued to be a taxable entity in its own right.

Any current liabilities (or assets) and deferred tax assets arising from unused tax losses of the subsidiaries are assumed by the head entity in the tax consolidated group and are recognised by the Company as amounts payable / (receivable) to / (from) other entities in the tax-consolidated group. Any difference between these amounts is recognised by the Company as an equity contribution or distribution.

The Company recognises deferred tax assets arising from unused tax losses of the tax-consolidated group to the extent that it is probable that future taxable profits of the tax-consolidated group will be available against which the asset can be utilised.

Any subsequent period adjustments to deferred tax assets arising from unused tax losses as a result of revised assessments of the probability of recoverability is recognised by the head entity only.

As the tax-consolidated group has no income tax payable, the head entity has not entered into a tax funding arrangement in conjunction with other members of the tax-consolidated group which sets out the funding obligations of members of the tax-consolidated group in respect of tax amounts.

Numerical reconciliation between tax benefit and pre-tax net loss

	2017	2016
	\$	\$
Loss before tax	(854,338)	(1,268,215)
Prima facie Income tax benefit at a tax rate of 30% (Decrease) / Increase in income tax benefit due to:	256,301	380,464
Income tax losses not recognised	(256,301)	(380,464)
Income tax benefit on pre-tax net loss	-	-
<i>Unrecognised deferred tax assets</i>		
Revenue tax losses	11,645,088	11,400,857
Capital tax losses	1,431,355	1,413,355

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

The tax losses do not expire under current legislation though these losses are subject to testing under loss recoupment rules in order for them to be utilised. Deferred tax assets have not been recognised in respect of this item because, at this time, it is not probable that future taxable profit will be available against which the benefits can be offset.

D2 LOSSES 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 after 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.

The calculation of basic and diluted losses per share for the year ended 30 June 2017 was based on the net loss attributable to ordinary shareholders of \$854,338 (2016: loss \$1,268,215) and a weighted average number of ordinary shares outstanding during the year ended 30 June 2017 of 178,622,182 (2016: 165,251,702), calculated as follows:

	2017	2016
	\$	\$
Loss for the financial year attributable to ordinary shareholders	(854,338)	(1,268,215)
<i>Weighted average number of ordinary shares</i>		
Undiluted Number of Shares		
Issued ordinary shares at 1 July	165,251,702	165,251,702
Effect of shares issued 7 December 2016	13,140,781	-
Effect of shares issued 26 June 2017	229,699	-
Weighted average number of ordinary shares used in calculating basic and diluted loss per share	178,622,182	165,251,702

Convertible Notes outstanding may contingently issue shares and could potentially dilute basic earnings per share in the future. For further details see Note A6.

31,943,977 potential shares (2016: 8,731,082) were excluded from the calculation of diluted earnings per share because they are antidilutive for the year ended 30 June 2017.

The weighted average market value of the Company's shares for purposes of calculating the dilutive effect of Convertible Notes was based on quoted market prices for the period during which the Convertible Notes were outstanding.

D3 EXPLORATION & EVALUATION EXPENSES

Exploration and evaluation expenditure is expensed directly to profit and loss when incurred.

D4 AUDITOR'S REMUNERATION

	2017	2016
	\$	\$
Auditors of the Company <i>KPMG Australia</i>		
Audit and review of financial reports	41,200	41,200
Other assurance services	-	-
	41,200	41,200

The auditors of the Company, KPMG Australia, did not perform other non-audit assurance services for the Group during the year (2016: \$Nil).

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

D5 PARENT ENTITY DISCLOSURES

The Group has applied amendments to the *Corporations Act 2001* (Cth) that remove the requirements for the Group to lodge parent entity financial statements. Parent entity financial statements have been replaced by the following specific parent entity disclosure.

As at, and throughout, the financial year ending 30 June 2017 the parent company of the Group was King Island Scheelite Limited.

	2017 \$	2016 \$
Results of the parent entity		
Loss for the period	(841,229)	(722,804)
Other comprehensive income	-	-
Total comprehensive income for the period	<u>(841,229)</u>	<u>(722,804)</u>

Financial position of parent entity at year end

Current assets	1,510,731	1,299,872
Non-current assets	2,981,980	2,981,980
Total assets	<u>4,492,711</u>	<u>4,281,852</u>
Current liabilities	2,486,876	3,336,083
Total liabilities	<u>2,486,876</u>	<u>3,336,083</u>
Net Assets	<u>2,005,835</u>	<u>945,769</u>

Total equity of the parent entity comprising of:

Share capital	57,134,995	55,233,701
Share Option Reserve	955,301	955,300
Accumulated Losses	(56,084,461)	(55,243,232)
Total Equity	<u>2,005,835</u>	<u>945,769</u>

Parent entity capital commitments for acquisition of property, plant & equipment

There are no parent entity capital commitments for acquisition of property, plant and equipment as at 30 June 2017 (2016: \$Nil).

Contingencies

Refer to Note A16 for contingencies related to the parent entity.

To reflect the fair value of assets within King Island Scheelite Limited, an adjustment to the value of non-current assets of \$22,159,288 has been recognised and reflected in opening accumulated losses. This re-classification has been made to the prior year to align with current year presentation

D6 FINANCING INCOME AND EXPENSES

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

Finance expenses comprise interest expense on borrowings. Borrowing costs that are not directly attributable to the acquisition, construction or production of a qualifying asset are recognised in profit or loss using the effective interest method.

D7 DERIVATIVES

The financial entity does not hold any derivative financial instruments.

D8 GST

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.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

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

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

D9 NEW ACCOUNTING STANDARDS

A number of new standards and amendments to standards are effective for annual periods beginning after 1 January 2018, except for *IFRS 16 Leases*, which is effective for annual periods beginning on or after 1 January 2019. These new standards and amendments have not been applied in preparing these financial statements and none of them are expected to have a significant effect on the financial statements of the Group.

AASB 9 Financial Instruments

AASB 9 replaces the existing guidance in *AASB 139 Financial Instruments: Recognition and Measurement*. AASB 9 includes revised guidance on the classification and measurement of financial instruments, including a new expected credit loss model for calculating impairment on financial assets, and the new general hedge accounting requirements. It also carries forward the guidance on recognition and de-recognition of financial instruments from AASB 139. AASB 9 is effective for annual reporting periods beginning on or after 1 January 2018, with early adoption permitted.

AASB 15 Revenue from Contracts with Customers

AASB 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognised. It replaces existing revenue recognition guidance, including *AASB 118 Revenue*, *AASB 111 Construction Contracts* and *IFRIC 13 Customer Loyalty Programmes*. AASB 15 is effective for annual reporting periods beginning on or after 1 January 2018, with early adoption permitted.

IFRS 16 Leases

IFRS 16 Leases removes the lease classification test and required all leases (including operating leases) to be brought onto the balance sheet. The definition of a lease is also amended and is now the new on/off balance sheet test for lessees. IFRS 16 is effective for annual reporting periods beginning on or after 1 January 2019 with early adoption permitted for entities that also adopt *IFRS 15 Revenue from Contracts with Customers*.

DIRECTORS' DECLARATION

1. In the opinion of the Directors of King Island Scheelite Limited ("the Company"):
 - (a) the consolidated financial statements and notes that are set out on pages 18 to 39 and the Remuneration Report on pages 10 to 14 in the Directors' Report, are in accordance with the *Corporations Act 2001 (Cth)*, including:
 - (i) giving a true and fair view of the Group's financial position as at 30 June 2017 and of its performance for the financial year ended on that date; and
 - (ii) complying with *Australian Accounting Standards* and the *Corporations Regulations 2001*; and
 - (b) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.
2. The Directors have been given the declarations required by Section 295A of the *Corporations Act 2001 (Cth)* from the Chief Executive Officer and Chief Financial Officer for the financial year ended 30 June 2017.
3. The Directors draw attention to Note A1 to the consolidated financial statements, which includes a statement of compliance with International Financial Reporting Standards.

Signed in accordance with a resolution of the Directors.



Johann Jacobs
Chairman
Sydney
8 August 2017



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 of King Island Scheelite Limited for the financial year ended 30 June 2017 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

Daniel Camilleri
Partner

Sydney
8 August 2017



Independent Auditor's Report

To the shareholders of King Island Scheelite Limited

Report on the audit of the Financial Report

Opinion

We have audited the **Financial Report** of King Island Scheelite Limited (the Company).

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

- giving a true and fair view of the **Group** and Company's financial position as at 30 June 2017 and of its financial performance for the year ended on that date; and
- complying with *Australian Accounting Standards* and the *Corporations Regulations 2001*.

The **Financial Report** comprises:

- Consolidated statement of financial position as at 30 June 2017
- Consolidated statement of profit or loss and other comprehensive income, Consolidated statement of changes in equity, and Consolidated statement of cash flows for the year then ended
- Notes including a summary of significant accounting policies
- Directors' Declaration.

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

Basis for opinion

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

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

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



Key Audit Matters

The **Key Audit Matters** we identified are:

- Going Concern

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

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

Going Concern basis of accounting

Refer to Note A4 to the Financial Report

The key audit matter	How the matter was addressed in our audit
<p>The Group's use of the going concern basis of accounting and the associated extent of uncertainty is a key audit matter due to the high level of judgement required in evaluating the Group's assessment of going concern.</p> <p>We considered the levels of uncertainty by focusing on the following:</p> <ul style="list-style-type: none"> • the Group's planned levels of operational and capital expenditure, and the ability of the Group to manage cash outflows within available funding; and • the Group's ability to meet financing commitments. This included nature of planned methods to achieve this, feasibility and status/progress of those plans. <p>In assessing this key audit matter, we involved senior audit team members, who understand the Company's business, industry and the economic environment it operates in.</p>	<p>Our audit procedures included:</p> <ul style="list-style-type: none"> • Analysing management's cash flow projections by: <ul style="list-style-type: none"> • Comparing the underlying data used to generate the projections to other internal documents; • Assessing the accuracy of the cash forecasts by comparing historical cash outflow forecasts to actual expenditure in those periods; and • Considering the forecast levels of committed expenditure compared to discretionary operating expenditures; • We assessed the accounting treatment of the convertible note transaction and considered any restrictions on the use of these funds.

Other Information

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

The Other Information we obtained prior to the date of this Auditor's Report was the Directors' Report.

Our opinion on the Financial Report does not cover the Other Information and, accordingly, we do not express any form of assurance conclusion thereon.

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

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

Responsibilities of the Directors for the Financial Report

The Directors are responsible for:

- preparing the Financial Report that gives a true and fair view in accordance with *Australian Accounting Standards*
- implementing necessary internal control to enable the preparation of a Financial Report that gives a true and fair view and is free from material misstatement, whether due to fraud or error
- assessing the Company's ability to continue as a going concern. This includes disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless they either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the Financial Report

Our objective is:

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

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

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

A further description of our responsibilities for the audit of the Financial Report is located at the Auditing and Assurance Standards Board website at: http://www.auasb.gov.au/auditors_files/ar2.pdf. This description forms part of our Auditor's Report.

Report on the Remuneration Report

Opinion

In our opinion, the Remuneration Report of King Island Scheelite Limited for the year ended 30 June 2017, complies with *Section 300A* of the *Corporations Act 2001*.



KPMG

Directors' responsibilities

The Directors of the Company are responsible for the preparation and presentation of the Remuneration Report in accordance with *Section 300A* of the *Corporations Act 2001*.

Our responsibilities

We have audited the Remuneration Report included in of the Directors' report for the year ended 30 June 2017.

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



Daniel Camilleri

Partner

Sydney, Australia

8 August 2017

ADDITIONAL SHAREHOLDER INFORMATION

At a general meeting on a show of hands, each shareholder present in person or by proxy has one vote and on a poll each shareholder present in person or by proxy 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.

At 30 June 2017, issued capital was 209,608,702 ordinary fully paid shares held by 574 holders.

20 Largest Holders of Ordinary Shares and their Holdings at 30 June 2017

Rank	Name	Number of Shares	% of Issued
1	CITICORP NOMINEES PTY LIMITED	26,361,003	12.58
2	INVIA CUSTODIAN PTY LIMITED <R & G CHADWICK A/C>	25,983,239	12.39
3	ABEX RESOURCE HOLDINGS PTY LTD	22,226,000	10.60
4	CHRYSALIS INVESTMENTS PTY LTD <THE ELLIS FAMILY A/C>	22,131,000	10.56
5	MRS CATHERINE JEANE MORRITT	14,157,199	6.75
6	MR ANTHONY JAMES HAGGARTY	8,476,604	4.04
7	MR GIUSEPPE CORONICA	6,700,938	3.20
8	HFTT PTY LTD <HAGGARTY FAMILY A/C>	6,522,348	3.11
9	INVIA CUSTODIAN PTY LIMITED <PACIFIC ROAD PROVIDENT A/C>	5,766,567	2.75
10	RANAMOK PTY LTD <RANAMOK FAMILY A/C>	5,170,590	2.47
11	HUNAN NONFERROUS METALS CORPORATION LIMITED	4,450,000	2.12
12	INVIA CUSTODIAN PTY LIMITED <AJ & LM DAVIES FAMILY A/C>	3,543,587	1.69
13	SERLETT PTY LTD <DILIGENT INV SUPERFUND A/C>	2,818,537	1.34
14	MR SCOTT GILCHRIST	2,268,755	1.08
15	CHELSEA SECURITIES LIMITED	2,188,659	1.04
16	LIPPO SECURITIES LTD <CLIENT A/C>	1,905,282	0.91
17	MR DONALD BOYD	1,835,295	0.88
18	FINMIN SOLUTIONS PTY LTD <JACOBS FAMILY S/FUND A/C>	1,694,120	0.81
19	CARIDON PTY LTD <CARIDON P/L SUPER FUND A/C>	1,650,000	0.79
20	MR ROBERT SLADE FORBES	1,500,000	0.72
20	RYTECH PTY LTD <RYTECH SUPERFUND A/C>	1,500,000	0.72
Top 20 holders of ORDINARY SHARES (TOTAL)		168,849,723	80.55

Distribution of Holders and Holdings at 30 June 2017

Range	Total holders	Number of Shares	% of Issued Capital
1 - 1,000	32	1,971	0.00
1,001 - 5,000	98	340,289	0.16
5,001 - 10,000	79	596,861	0.28
10,001 - 100,000	256	9,593,991	4.58
100,001 - 9,999,999,999	109	199,075,590	94.97
Rounding	0	0	0.01
Total	574	209,608,702	100.00

Unmarketable Parcels at 30 June 2017

	Minimum Parcel Size	Holders	Number of Shares
Minimum \$ 500.00 parcel at \$ 0.038 per share	13,158	245	1,362,764

ADDITIONAL SHAREHOLDER INFORMATION CONTINUED

Substantial Shareholders at 30 June 2017

	Number of Shares	Proportion of Issued Shares
CHRYSLIS INVESTMENTS PTY LTD	48,209,220	22.99%
MR RICHARD WILLMOT CHADWICK + MRS GWENDA ANN CHADWICK	48,209,239	22.99%
MRS CATHERINE JEANE MORRITT	14,157,199	6.75%

Unquoted Securities

The following options were issued on 6 December 2013 to the Chairman and a Director, Messrs Jacobs and Davies, respectively:

<i>King Island Scheelite Limited Unquoted Options</i>			Johann Jacobs	Allan Davies	Total
			Number	Number	Number
Exercise Price per share	Vesting Date	Expiry Date			
15 cents	1 January 2014	31 December 2018	1,000,000	1,000,000	2,000,000
22 cents	1 January 2015	31 December 2019	1,500,000	1,500,000	3,000,000
28 cents	1 January 2016	31 December 2020	2,000,000	2,000,000	4,000,000
			4,500,000	4,500,000	9,000,000

Each Option provides the right for the option holder to acquire one fully paid Share upon payment of each Exercise Price for each Share.

Mining Exploration Tenements

The Company holds the following licences and lease.	Interest
Exploration Licence EL19/2001 at Grassy, King Island (91 sq kms) (expires 14 December 2017)	100%
Mining Lease 1M/2006 at Grassy, King Island (544 hectares) (expires 5 June 2029)	100%

Securities Exchange Listing

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

The Company's ASX code for ordinary shares is KIS.

On-Market Buy Back

There is no on-market buy-back.

Corporate Governance Statement

The Company's Corporate Governance statement for the financial year ended 30 June 2017 is available for members to download and access from <http://kingislandscheelite.com.au/corporate-governance>