# MINERAL COMMODITIES LTD

ABN 39 008 478 653

## HALF-YEAR FINANCIAL REPORT
## 30 JUNE 2003

# DIRECTORS' REPORT

The Directors present their report on the Consolidated Entity, consisting of Mineral Commodities Ltd (the "Company") and the entities it controlled at the end of or during the half-year ended 30 June 2003.

## DIRECTORS

The Directors of the Company in office during or since the end of the half year are:

| | |
|---|---|
| Joseph Anthony Caruso | Non-Executive Chairman |
| Mark Victor Caruso | Managing Director |
| Gregory Hugh Steemson | Executive Director |

## RESULTS

The loss of the consolidated entity after income tax attributable to members of the parent entity was $333,706 (2002 : loss $43,703).

## REVIEW OF OPERATIONS

Highlights of the Company's operations for the period under review are as follows.

**Xolobeni Mineral Sands Project (South Africa)**

The drilling programme completed in late 2002 produced 12,648 samples and analysis of these samples and compilation of the database was completed in this period. SRK Consulting was commissioned to prepare a resource estimate based on this drilling programme. This resulted in a JORC compliant combination of Measured, Indicated and Inferred Resources using a 1.5% Heavy Mineral (HM) cut-off containing 16.9 million tonnes of HM, confirming the Xolobeni deposit as one of the world's key emerging mineral sands projects. The SRK resource estimate is 310 million tonnes at 5.4% HM with an ilmenite grade of 2.9%. Details of the resource estimate by area is as follows.

| Area | Resource Status | Tonnes (Mt) | % HM | % Fines | % Ilm (2) |
|---|---|---|---|---|---|
| Sikombe | Measured | 77 | 5.9 | 18.0 | 3.3 |
| Kwanyana | Measured | 125 | 6.3 | 19.6 | 3.3 |
| Mnyameni | Indicated | 94 | 4.3 | 28.2 | 2.3 |
| Mpahlane | Inferred | 14 | 2.7 | 28.3 | 1.9 |
| TOTAL | | 310 | 5.4 | 22.2 | 2.9 |

(1) All tonnages are based on a 1.5% HM cut-off grade

(2) The reported percentage of Ilmenite is a magnetic fraction of the THM without any previous or further mineralogical separation.

*The information in this report that relates to Mineral Resources is based on information compiled by Daniel Guibal, who is a Fellow of The Australasian Institute of Mining and Metallurgy. Daniel Guibal is a full-time employee of SRK Consulting. Daniel Guibal has sufficient experience which is relevant to the style of mineralisation and type of deposit under consideration and to the activity which he is undertaking to qualify as a Competent Person as defined in the 1999 Edition of the "Australasian Code for Reporting of Mineral Resources and Ore Reserves". Daniel Guibal consents to the inclusion in the report of the matters based on their information in the form and context in which it appears.*

SRK Consulting then completed a Desktop Mining Study based on this updated resource estimate. The mining schedule was optimised subject to production, blending and concentrator location constraints. The mining rate was determined to be 13Mtpa for the first 15 years, increasing to 20Mtpa thereafter. Total mine life is 25 years. The financial analysis conducted as part of this study indicates the project is economically viable, and based on this study the Company has decided to proceed with a Bankable Feasibility Study.

Discussion have been held with a number of engineering groups and an appointment of project engineer for the bankable feasibility study is expected to be made in the near term.

Discussions have also been held with a number of potential Black Economic Empowerment partners who have expressed interest in the project. This includes representatives of the local Amadiba community with whom the Company enjoys a strong relationship. The Company expects to commence formalisation of arrangements with Black Economic Empowerment partners in the near term.

The new South African Mineral and Petroleum Resources Development Act and Mineral and Petroleum Development Regulations 2002 are expected to be proclaimed in the near future. This new legislation has been reviewed in order that a mining application may be submitted as soon as possible after the Act and Regulations are promulgated.

**Tormin Zircon Project (South Africa)**

The Company has complied with the requests for additional information from the South African Department of Minerals & Energy in relation to the Prospecting Permit application, and the application is in the process of being considered. In anticipation of the application being granted the Company appointed environmental consultants and undertook some preliminary metallurgical testwork in the period. Also during the period agreements were signed with the tenement holder of part of the planned project area as well as Namakwa Sands in relation to access roads.

**Trekelano Project (Queensland)**

A controlled entity of the Company has entered into an agreement with Placer Pacific (Osborne) Pty Limited ("Osborne") whereby the controlled entity has granted Osborne a three year option to purchase the tenements. The option payments and the purchase consideration total $1 million and the controlled entity is entitled to a 2.5% NSR subject to the deduction of the option payments and purchase consideration.

**Yandallah Mineral Sands Project (Western Australia)**

The results from the 2,000 metre drilling programme completed towards the end of 2002 showed no areas of economic mineralisation. Accordingly the Company withdrew from this joint venture with Eaglefield Holdings Pty Ltd.

**Investment in Allied Mining & Processing Limited**

Subsequent to the end of the period Allied Mining & Processing Limited underwent a re-structuring and changed its name to Fortescue Metals Group Limited. Part of the re-structure involved the forming of a new company, Allied Gold Limited, to hold the company's gold mining assets. Mineral Commodities Limited, through its shareholding in Allied Mining & Processing Limited, has emerged as the largest shareholder in Allied Gold Limited with a 16% interest. Mineral Commodities has also reduced its shareholding in Fortescue Metals Group Limited to 9.5% at the date of this report.

Dated at Perth this 12th day of September 2003

Signed in accordance with a resolution of the Directors.

**Greg Steemson**
Director

## CONSOLIDATED STATEMENT OF FINANCIAL PERFORMANCE
## FOR THE HALF-YEAR ENDED 30 JUNE 2003

| | | Half-year ended 2003 $ | 2002 $ |
|---|---|---|---|
| Revenues from operating activities | 2 | 290,754 | 1,074,544 |
| **Total Revenue** | | **290,754** | **1,074,544** |
| General & Administration Expenditure | | (368,173) | (327,860) |
| Exploration and Evaluation Expenditure | | 5,689 | (28,897) |
| Other expenses from ordinary activities | | (253,644) | (759,966) |
| **Loss from ordinary activities before related income tax expense** | | **(325,374)** | **(42,179)** |
| Income tax expense relating to ordinary activities | | (6,763) | - |
| **Net Loss** | | **(332,137)** | **(42,179)** |
| Net profit attributable outside equity interests | | 1,569 | 1,524 |
| **Net Loss attributable to members on the parent entity** | | **(333,706)** | **(43,703)** |
| Basic earnings (loss) per share (cents) | | (0.65) | (0.10) |

# CONSOLIDATED STATEMENT OF FINANCIAL POSITION
## AS AT 30 JUNE 2003

| | Half-Year ended 30 June 2003 $ | Financial Year ended 31 December 2002 $ |
|---|---|---|
| **CURRENT ASSETS** | | |
| Cash Assets | 2,819,838 | 3,844,725 |
| Receivables | 78,842 | 207,449 |
| Other Financial Assets | 391,564 | 259,575 |
| Other | 148,255 | 132,841 |
| **Total Current Assets** | 3,438,499 | 4,444,590 |
| **NON-CURRENT ASSETS** | | |
| Property, Plant and Equipment | 160,764 | 196,204 |
| Exploration & Development Expenditure | 4,827,162 | 4,226,919 |
| Investments Accounted for Using the Equity Method | 1,609,578 | 1,733,081 |
| **Total Non-current Assets** | 6,597,504 | 6,156,204 |
| **Total Assets** | 10,036,003 | 10,600,794 |
| **CURRENT LIABILITIES** | | |
| Payables | 203,648 | 348,480 |
| Provisions | 25,018 | 7,784 |
| **Total Current Liabilities** | 228,666 | 356,264 |
| **NON CURRENT LIABILITIES** | | |
| Provisions | 83,160 | 85,097 |
| Non-Interest bearing liabilities | 54,710 | 54,710 |
| **Total Non-current Liabilities** | 137,870 | 139,807 |
| **Total Liabilities** | 366,536 | 496,071 |
| **Net Assets** | 9,669,467 | 10,104,723 |
| **EQUITY** | | |
| Contributed Equity | 19,688,201 | 19,688,201 |
| Reserves | 2,923,350 | 3,026,468 |
| Accumulated Losses | (13,345,305) | (13,011,598) |
| Total parent entity interest | 9,266,246 | 9,703,071 |
| Outside entity interest | 403,221 | 401,652 |
| **Total Equity** | 9,669,467 | 10,104,723 |

## CONSOLIDATED STATEMENT OF CASH FLOWS
## FOR THE HALF-YEAR ENDED 30 JUNE 2003

| | 2003<br>$ | 2002<br>$ |
|---|---|---|
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | |
| Payments to suppliers and employees | (253,416) | (396,334) |
| Exploration expenditure | (600,243) | (532,814) |
| Interest Received | 113,434 | 108,708 |
| **Net cash generated used in operating activities** | (740,225) | (820,440) |
| **CASH FLOWS FROM INVESTING ACTIVITIES** | | |
| Payment for plant and equipment | (3,231) | (5,940) |
| Proceeds from the sale of equity investments | 44,083 | 945,942 |
| Payment for equity investments | (217,046) | (2,253,174) |
| Payment for purchase of subsidiary | - | (400,000) |
| Net cash outflow for term deposit | - | 25,812 |
| **Net cash used in investing activities** | (176,194) | (1,687,360) |
| **CASH FLOWS FROM FINANCING ACTIVITIES** | | |
| Proceeds from issue of shares | - | 2,614,948 |
| **Net cash used in financing activities** | - | 2,614,948 |
| **Net increase/(decrease) in cash held** | **(916,419)** | **107,148** |
| Cash at the beginning of the half-year | 3,844,725 | 5,362,647 |
| Foreign exchange movement | (108,468) | - |
| **Cash at the end of the half-year** | 2,819,838 | 5,469,795 |

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
## FOR THE HALF YEAR ENDED 30 JUNE 2003

### 1. BASIS OF PREPARATION

This general purpose financial report for the interim half-year reporting period ended 30 June 2003 has been prepared in accordance with Accounting Standard AASB 1029: *Interim Financial Reporting,* other mandatory professional reporting requirements (Urgent Issues Group Consensus Views), other authoritative pronouncements of the Australian Accounting Standards Board and the Corporations Act.

This interim financial report does not include all the notes of the type normally included in an annual financial report. Accordingly, this report is to be read in conjunction with the annual report for the year ended 31 December 2002 and any public announcements made by Mineral Commodities Ltd during the interim reporting period in accordance with the continuous disclosure requirements of the Corporations Act.

The accounting policies have been consistently applied by the entities in the economic entity and are consistent with those applied in the 31 December 2002 annual report.

The accounting policies adopted are consistent with those of the previous financial year and corresponding interim reporting period.

| | 2003<br>$ | 2002<br>$ |
|---|---|---|
| **2. REVENUE FROM ORDINARY ACTIVITIES** | | |
| **Revenue from operating activities:** | | |
| Interest – Other persons | 113,434 | 108,708 |
| Proceeds from sale of investments in listed companies | 44,083 | 956,330 |
| Other Revenue | 133,237 | 9,506 |
| Total Revenue | 290,754 | 1,074,544 |
| **3. LOSS FROM ORDINARY ACTIVITIES** | | |
| **Loss from ordinary activities before income tax has been determined after:** | | |
| Operating Lease rental | 20,992 | 18,346 |
| Depreciation and amortisation | 33,822 | 9,220 |
| Exploration costs written off | (5,689) | 28,897 |
| **Other expenses from ordinary activities** | | |
| Cost of investments in listed companies sold | 34,432 | 763,070 |
| Increase/(decrease provision for diminution of value in listed securities) | 70,083 | (3,104) |
| Total other expenses from ordinary activities | 104,515 | 759,966 |

## 4. SEGMENT INFORMATION

| Primary Reporting Geographic Segments | South Africa 2003 | South Africa 2002 | Australia 2003 | Australia 2002 | Consolidated 2003 | Consolidated 2002 |
|---|---|---|---|---|---|---|
| | $ | $ | $ | $ | $ | $ |
| **Revenue** | | | | | | |
| Total segment revenue | 51,505 | 3,441 | 239,249 | 1,071,103 | 290,754 | 1,074,544 |
| Segment result | 15,782 | 4,184 | (349,488) | (46,363) | (333,706) | (42,179) |

## 5. CONTINGENT LIABILITIES

The company has provided bank guarantees with a total value of $31,471 to the Department of Minerals & Energy (Queensland) and Department of Minerals & Energy South Africa) as security on tenements. These guarantees are backed by term deposits.

## 6. SUBSEQUENT EVENTS

Subsequent to the end of the period Allied Mining & Processing Limited underwent a re-structuring and changed its name to Fortescue Metals Group Limited. Part of the re-structure involved the forming of a new company, Allied Gold Limited, to hold the company's gold mining assets. Mineral Commodities Limited, through its shareholding in Allied Mining & Processing Limited, has emerged as the largest shareholder in Allied Gold Limited with a 16% interest. Mineral Commodities has also reduced its shareholding in Fortescue Metals Group Limited to 9.5% at the date of this report.

Other than the above, no matters or circumstances have arisen since the end of the half-year which significantly affected or may significantly affect the Consolidated Entity's operations, the results of those operations or the Consolidated Entity's state of affairs in future financial years.

## DIRECTORS' DECLARATION

The Directors of Mineral Commodities Ltd declare that:

(a) The attached financial statements and notes thereto comply with Accounting Standard AASB 1029: Interim Financial Reporting and the Corporations Regulations; and

(b) The attached financial statements and notes thereto give a true and fair view of the economic entity's financial position as at 30 June 2003 and if its performance for the half-year ended on that date.

In the Directors' opinion, there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

Dated at Perth this 12th day of September 2003

Signed in accordance with a resolution of the Directors.

**Greg Steemson**
Director

# INDEPENDENT REVIEW REPORT
## To the members of Mineral Commodities Limited

**Scope**

We have reviewed the financial report of Mineral Commodities Limited for the half-year ended 30 June 2003 as set out on pages 1 to 8. The financial report is the consolidated accounts of the consolidated entity comprising the company and the entities it controlled at the half-year's end or from time to time during the half-year. The disclosing entity's directors are responsible for the financial report. We have performed an independent review of the financial report in order to state whether, on the basis of the procedures described, anything has come to our attention that would indicate that the financial report is not presented fairly in accordance with Accounting Standard AASB 1029: Interim Financial Reporting, other mandatory professional reporting requirements in Australia and statutory requirements, so as to present a view which is consistent with our understanding of the consolidated entity's financial position, and performance as represented by the results of is operations and its cash flows, and in order for the disclosing entity to lodge the financial statements with the Australian Securities & Investments Commission.

Our review has been conducted in accordance with Australian Auditing Standards applicable to review engagements. A review is limited primarily to inquiries of the entity's personnel and analytical procedures applied to the financial data. These procedures do not provide all the evidence that would be required in an audit, thus the level of assurance provided is less than given in an audit. We have not performed an audit and, accordingly, we do not express an opinion.

Statement

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the half-year financial report of Mineral Commodities Limited is not in accordance with:

(a) the Corporations Act 2001, including:

(i) giving a true and fair of the consolidated entity's financial position as at 30 June 2003 and of its performance for the half-year ended on that date; and

(ii) complying with Accounting Standard AASB 1029: Interim Financial Reporting and the Corporations Regulations; and

(b) other mandatory professional reporting requirements in Australia.

BDO
Chartered Accountants

B G McVeigh
Partner
Perth, Western Australia
12 September, 2003