

KING ISLAND
SCHEELITE



King Island Scheelite Limited
ABN 40 004 681 734

and its controlled entities

ANNUAL FINANCIAL REPORT

30 June 2008

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King Island Scheelite Limited Annual Financial Report 30 June 2008

INDEX	PAGE
DIRECTORS' REPORT	2
INCOME STATEMENTS	13
STATEMENTS OF CHANGES IN EQUITY	14
BALANCE SHEETS	15
STATEMENTS OF CASH FLOWS	16
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS	17
DIRECTORS' DECLARATION	51
LEAD AUDITOR'S INDEPENDENCE DECLARATION UNDER SECTION 307C OF THE CORPORATIONS ACT 2001	52
INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF KING ISLAND SCHEELITE LIMITED	53
SHAREHOLDER INFORMATION	55

King Island Scheelite Limited Annual Financial Report 30 June 2008

Directors' report

Directors

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

Anthony Haggarty Non-Executive Chairman, MComm (NSW), (appointed 7 April 1998), has over 25 years experience in the development, management and financing of mining projects. He has worked for BP Coal and BP Finance in Sydney and London and for Agipcoal as the Managing Director of its Australian subsidiary. He is also a director of the publicly listed companies Whitehaven Coal Limited (appointed 3 May 2007) and IMX Resources NL (appointed 29 January 2008).

During the 3 years to 30 June 2007, Tony was a director of the publicly listed company Excel Coal Limited (for the period 11 November 2002 to 25 October 2006),

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

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

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

Andy has 36 years experience in the investment banking and mining industries. He was most recently an executive director of Excel Coal Limited (for the period 8 July 1987 to 10 October 2006), responsible for the company's business development activities. He has worked in the Australian banking and finance industry since 1985 with Eureka Capital Partners, Resource Finance Corporation and Westpac. Prior to that, he was employed in a variety of management and technical positions with ARCO Coal, Utah International and Consolidation Coal. He is also a director of Whitehaven Coal Ltd (appointed 3 May 2007), XLX Pty Ltd and Chairman of Ranamok Glass Prize Ltd.

Company Secretary

Mr Ian Morgan *B Bus, CA, ACIS, MAICD, F Fin*, was appointed Company Secretary on 3 August 2005. Mr Morgan is an experienced Chartered Company Secretary and Chartered Accountant, with over 25 years experience in corporate administration. Mr. Morgan consults extensively to Oakhill Hamilton Pty Ltd, a company that provides secretarial and corporate advisory services to a range of listed and unlisted companies; and is company secretary of other publicly listed companies.

King Island Scheelite Limited Annual Financial Report 30 June 2008
Directors' report (continued)

Directors' meetings

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

	<i>Board Meetings</i>		<i>Audit Committee Meetings</i>	
	A	B	A	B
Anthony Haggarty	10	12	2	2
Robin Morrill	12	12	2	2
Andrew Plummer	10	12	2	2

A Number of meetings attended

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

Principal activities

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

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

Operating and financial review

Hunan Nonferrous Metals Corp (HNC)

Following the signing of a non-binding letter of intent earlier in the year, the Company entered into a Principles of Agreement (POA) with HNC on the 13 August 2007. This POA outlined how the Company and HNC intended to re-develop the King Island Project (Project). On the 19 December 2007 this POA was converted into a series of binding agreements, where:

- HNC would subscribe to 4.45 million fully paid ordinary shares in the Company (Shares), at an issue price of \$1.00 per Share. This placement would be approximately 10% of the Company's issued capital immediately after the placement is made;
- One representative from HNC would be invited to join the Company's Board;
- An unincorporated joint venture, to be called the Dolphin Joint Venture (DJV) would be formed, with the Company and HNC each holding an equal share of the DJV. Capital costs, operating costs and product produced by the DJV would be shared equally between the DJV Partners;
- HNC would provide debt funding to the Company to meet the Company's 50% share of construction and other pre-production costs. Repayment of this debt would be linked to the Company's 50% share of net cash flow from the Project;
- A fully owned subsidiary of the Company, Scheelite Management Pty Ltd, would manage the construction and operation of the Project; and
- Both the Company and HNC would market their respective shares of output from the Project on the most favourable terms available to each.

These agreements contain a number of conditions precedent which have now been satisfied or waived.

King Island Scheelite Limited Annual Financial Report 30 June 2008 Directors' report (continued)

Exploration

In December 2007 the Company engaged Fugro Airborne Surveys Pty Ltd to conduct a high resolution aeromagnetic survey of the area surrounding the proposed mine site on King Island. This survey covered the Dolphin and Bold Head scheelite mining areas, as well as some area off-shore. Fugro acquired and processed approximately 1,000 line km of magnetic data taken at 20m line spacing.

Prospective areas and drill-ready exploration targets were identified within close proximity to the planned processing plant site, as follows:

- West Dolphin - Located immediately west of the existing Dolphin pit, this area is interpreted to host potential strike extensions to Dolphin. Previous operators of the mine undertook limited diamond drilling in this area, but did not fully drill-test the approximately 250m by 200m prospective contact area.
- South Bold Head - Interpretation of the magnetic data in conjunction with gravity data indicates that Mine Series rocks may be found at relatively shallow depths immediately above a granitic body. Key mineralisation bounding faults extending between the historic Bold Head and Dolphin mining areas cut the approximately 500m long target area.
- South Dolphin - Mine Series rocks and key mineralising faults are interpreted to occur under Grassy Bay immediately off-shore from Dolphin. It is possible that mineralisation could plunge in excess of 500m to the south east within the Mine Series rocks and adjacent to the Grassy Granite contact.

The Company plans to drill test at least some of these targets in the coming year.

Eastern Feeder Joint Venture

On 10 October 2007, the Company finalised the disposal of its interest in Eastern Feeder Holdings Pty Ltd. This entity had a 74.5% interest in the Yarandoo sapphire tenements near Inverell, NSW.

As consideration for the sale of shares, the purchaser agreed to:

- Pay the Company a royalty equal to 5% of the gross proceeds from the sale of sapphires mined from the tenements which were sold as part of the agreement; and
- Acquire the liabilities arising before or after completion in Eastern Feeder Holdings Pty Ltd, including any rehabilitation obligations with respect to the tenements.

Tungsten Market

The international demand for tungsten concentrates remains healthy, with a number of processors expressing interest in purchasing output from the Project.

The average price of concentrates as quoted by Metal Pages for the year was US\$197 per metric tonne unit (or "mtu", equivalent to 10kg) of tungsten tri-oxide (2007: US\$210 / mtu). The Australian dollar however firmed significantly against the US dollar, reaching levels of 96 cents at the end of June 2008. Although since June 2008, the Australian dollar weakened to 83 cents.

Outlook

The Company has now finalised the joint venture arrangements with HNC. The DJV Partners will commence work on engineering and other construction activities of the Project. Previous studies have indicated that the Project will take approximately 21 months to construct before entering production.

King Island Scheelite Limited Annual Financial Report 30 June 2008
Directors' report (continued)

Dividends

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

Events subsequent to balance date

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

On 3 September 2008 the Company announced to the market that HNC had advised the Company that the outstanding approvals from the Chinese Government authorities were received, and consequently the Company deemed the joint venture agreements to be unconditional from that date.

HNC subscribed for 4.45 million Shares at \$1.00 each Share on 12 September 2008.

The Company and HNC now plan to commence work on development of the Project.

Directors' interests

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

<i>King Island Scheelite Limited</i>	<i>Ordinary fully paid shares</i>	<i>First Tranche Closing Performance Shares</i>	<i>Second Tranche Closing Performance Shares</i>
Anthony Haggarty	4,036,589	-	-
Robin Morritt	5,555,000	4,000,000	4,000,000
Andrew Plummer	884,146	-	-

King Island Scheelite Limited Annual Financial Report 30 June 2008
Directors' report (continued)

Environmental regulation

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

(a) Sapphire operations

Rehabilitation was completed to the land owners' satisfaction on several past exploration licences. During the financial year, the Company agreed to sell all the shares it owns in Eastern Feeder Holdings Pty Ltd, which had a 74.5% interest in the Yarandoo sapphire mining operation located near Inverell New South Wales. The purchaser agreed to acquire the liabilities, arising before or after completion, in Eastern Feeder Holdings Pty Ltd, including any rehabilitation obligations with respect to the Yarandoo and Naranvale tenements. Refer to Note 12.

(b) Base Metal Operations

The Company has finalised the rectification required with the EPA and local council. Costs for this work during the financial year totalled \$4,000 (2007 \$176,000).

(c) King Island

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

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

Indemnification and insurance of officers

During the financial year, the Company arranged insurance to indemnify each director and officer holding office during the year against any liabilities for costs and expenses incurred by them, including legal expenses, as a result of any third party proceedings arising from their conduct as directors and officers of the Company, other than dishonest or criminal intent, improper gain, or insider trading in relation to the Company. The Company paid a premium of \$27,043 (2007 \$30,027), exclusive of GST, for this insurance cover.

Non-audit services

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

Audit Services	Consolidated	
	2008	2007
	\$	\$
Auditors of the Company		
<i>KPMG Australia</i>		
Audit and review of financial reports	63,500	64,800

Remuneration Report

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

King Island Scheelite Limited Annual Financial Report 30 June 2008
Directors' report (continued)

Contract terms and conditions

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

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

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

Mr Haggarty (Non-Executive Chairman)

During the financial year, an entity controlled by Mr. Haggarty was paid at the rate of \$30,987 p.a. plus 9% statutory superannuation for Mr. Haggarty to be a non-executive Director and Chairman (2007 \$29,076 plus 9% statutory superannuation).

Any further work on behalf of the Company is paid on a time incurred basis. No annual or long service leave accrues to Mr Haggarty.

Mr Plummer (Non-Executive)

Mr Plummer, or an entity controlled by Mr. Plummer, is paid at the rate of \$26,400 p.a. plus 9% statutory superannuation to be a non-executive Director. Any further work on behalf of the Company is paid on a time incurred basis. No annual or long service leave accrues to Mr Plummer.

Dr Morritt (Non-Executive)

Dr Morritt is paid at the rate of \$26,400 p.a. plus 9% statutory superannuation to be a non-executive Director. Any further work on behalf of the Company is paid on a time incurred basis. No annual or long service leave accrues to Dr Morritt.

Mr. Nicholas Lambeth (Chief Executive Officer)

The chief executive officer's contract is summarised as follows:

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

Options issued to Directors

There were no options issued to Directors or Executives during or since the end of the financial year, nor during the previous financial year. During the financial year, no shares were issued on the exercise of options previously granted as compensation.

King Island Scheelite Limited Annual Financial Report 30 June 2008
Directors' report (continued)

Remuneration Report (continued)

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

		Short-term			Post-employment	Other long term	Termination benefits	Share-based payments	Total	Proportion of remuneration performance related	Value of options as proportion of remuneration %	
		Salary & fees	Cash bonus	Non-monetary benefits	Total	Super benefits						
		\$	\$	\$	\$	\$	\$	\$	\$			
Directors												
A Haggarty ¹	2008	30,987	-	-	30,987	2,789	-	-	-	33,776	-	-
	2007	29,076	-	-	29,076	2,617	-	-	-	31,693	-	-
R Morrill	2008	26,400	-	-	26,400	2,376	-	-	-	28,776	-	-
	2007	26,400	-	-	26,400	2,376	-	-	-	28,776	-	-
A Plummer ²	2008	26,400	-	-	26,400	2,376	-	-	-	28,776	-	-
	2007	26,400	-	-	26,400	2,376	-	-	-	28,776	-	-
R Soper (retired 31 March 2007) ³	2008	-	-	-	-	-	-	-	-	-	-	-
	2007	122,249	-	-	122,249	1,954	-	-	-	124,203	-	-
Executive												
N Lambeth (CEO appointed 26 September 2006)	2008	302,752	-	-	302,752	27,248	-	-	-	330,000	-	-
	2007	220,912	-	-	220,912	19,882	-	-	-	240,794	-	-
Total compensation (Consolidated Entity and Company)	2008	386,539	-	-	386,539	34,789	-	-	-	421,328		
	2007	425,037	-	-	425,037	29,205	-	-	-	454,242		

1 For the year ended 30 June 2008 the Company paid \$79,643 (2007 \$46,339) to companies associated with Mr. Haggarty for his director's fees \$33,776 (2007 \$31,693); office sub-rental and services and office supplies \$45,867 (2007 \$ 14,191) and consulting services \$Nil (2007 \$455). This office sub-rental agreement was terminated effective 31 May 2008.

2 For the year ended 30 June 2008 the Company paid \$28,776 (2007 \$14,388) to a company associated with Mr. Plummer for his director's fees.

3 For the year ended 30 June 2007 the Company paid \$124,203 to companies associated with Mr. Soper for his director's fees \$23,665 and consulting services \$100,538.

King Island Scheelite Limited Annual Financial Report 30 June 2008
Directors' report (continued)

Shares under option

There were no options or closing performance shares issued during or since the end of the financial year.

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

Date securities granted	Expiry date	Issue price of shares Cents	Number of shares under option
<i>Options</i>			
4 July 2005	3 July 2010	0.001	1,000,000
<i>Closing Performance Shares</i>			
30 May 2005	29 May 2010	0.001	<u>16,000,000</u>
			<u>17,000,000</u>

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.

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

Corporate Governance

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

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

Principle 1: Lay solid foundations for management and oversight

Role of the Board

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

The Company's board is comprised of 3 directors at 30 June 2008:

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

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

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

King Island Scheelite Limited Annual Financial Report 30 June 2008
Directors' report (continued)

Principle 2: Structure the board to add value

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

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

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

- The Chairman is not independent of the Consolidated Entity.
- The Company has a formally constituted Audit Committee but does not have a formal Audit Committee Charter, Board Nomination or Remuneration Committee. Due to the Company's size and limited operations the Board no longer uses the Corporate Governance Committee.
- The majority of Directors are not independent.

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

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

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

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

Principle 3: Promote ethical and responsible decisions-making

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

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

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

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

**King Island Scheelite Limited Annual Financial Report 30 June 2008
Directors' report (continued)**

Corporate Governance (continued)

Principle 4: Safeguard integrity in financial reporting

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

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

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

Principle 5: Make timely and balanced disclosures

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

Principle 6: Respects the rights of shareholders

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

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

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

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

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

Principle 7: Recognise and manage risk

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

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

King Island Scheelite Limited Annual Financial Report 30 June 2008
Directors' report (continued)

Corporate Governance (continued)

Principle 8: Encourage enhanced performance

The Company does not have a Remuneration Committee. The Company only employs the Chief Executive Officer.

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

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

Principle 9: Remunerate fairly and responsibly

There are no formal remuneration policies maintained by the Company.

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

The Company does not maintain a share option plan.

Principle 10: Recognise the legitimate interests of stakeholders

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

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

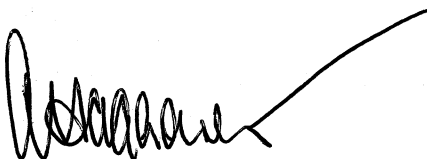
Lead auditor's independence declaration

The lead auditor's independence declaration made under Section 307C of the Corporations Act 2001 is set out on page 52 and forms part of this Directors' Report.

Rounding off

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

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



Anthony Haggarty
Chairman
Sydney
12 September 2008

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King Island Scheelite Limited Annual Financial Report 30 June 2008

Income statements

For the year ended 30 June 2008

	Note	Consolidated		The Company	
		2008 \$000	2007 \$000	2008 \$000	2007 \$000
Revenue	3	-	-	-	9
Cost of sales		-	-	-	-
Gross profit		-	-	-	9
Employee expenses	4	(463)	(454)	(463)	(454)
Administrative expenses		(811)	(664)	(811)	(657)
Depreciation		(4)	(2)	(4)	(2)
Write down of capitalised development costs		-	(178)	-	-
Impairment of receivable due from controlled entity		-	-	-	(194)
Impairment of investment in associate		-	(100)	-	(100)
Mine rehabilitation benefit		6	54	6	54
Financial income – interest		156	222	156	222
Loss before tax and intangibles adjustment		(1,116)	(1,122)	(1,116)	(1,122)
Adjustment to intangible assets resulting from the recognition of income tax benefits	16	-	(2,083)	-	-
Loss before tax		(1,116)	(3,205)	(1,116)	(1,122)
Income tax benefit	6	706	2,192	372	109
Net loss attributable to members of the parent		(410)	(1,013)	(744)	(1,013)
		2008 cents	2007 cents		
Basic and diluted loss per share attributable to ordinary equity holders	7	(1.0)	(2.7)		

The income statements are to be read in conjunction with the notes to the consolidated financial statements set out on pages 17 to 50.

King Island Scheelite Limited Annual Financial Report 30 June 2008

Statements of changes in equity

For the year ended 30 June 2008

Note	Issued Capital \$000	Accumulated losses \$000	Share Option reserve \$000	Total equity \$000
Consolidated				
Balance at 1 July 2006	25,020	(11,188)	170	14,002
Share issue	4,286	-	-	4,286
Closing performance shares	9,920	-	-	9,920
Net loss for the year	-	(1,013)	-	(1,013)
Balance at 30 June 2007	39,226	(12,201)	170	27,195
Net loss for the year	-	(410)	-	(410)
Balance at 30 June 2008	39,226	(12,611)	170	26,785
The Company				
Balance at 1 July 2006	25,020	(11,188)	170	14,002
Share issue	4,286	-	-	4,286
Closing performance shares	9,920	-	-	9,920
Net loss for the year	-	(1,013)	-	(1,013)
Balance at 30 June 2007	39,226	(12,201)	170	27,195
Net loss for the year	-	(744)	-	(744)
Balance at 30 June 2008	39,226	(12,945)	170	26,451

Amounts are stated net of tax

The statements of changes in equity should be read in conjunction with the notes to the consolidated financial statements set out on pages 17 to 50.

King Island Scheelite Limited Annual Financial Report 30 June 2008

Balance sheets

As at 30 June 2008

	Note	Consolidated		The Company	
		2008 \$000	2007 \$000	2008 \$000	2007 \$000
Current assets					
Cash and cash equivalents	8	1,042	3,835	1,042	3,816
Trade and other receivables	9	69	99	68	99
Inventories	10	28	28	28	28
Total current assets		1,139	3,962	1,138	3,943
Non-current assets					
Trade and other receivables	9	-	33	2	2
Investments accounted for using the equity method	11	-	-	-	-
Other financial assets	14	-	-	16,863	16,863
Property, plant and equipment	15	819	819	819	819
Intangible assets	16	27,838	25,810	7,999	5,970
Deferred tax assets	13	-	-	2,008	2,008
Other		-	1	-	1
Total non-current assets		28,657	26,663	27,691	25,663
Total assets		29,796	30,625	28,829	29,606
Current liabilities					
Trade and other payables	17	256	305	2,339	2,384
Provisions	18	39	74	39	27
Total current liabilities		295	379	2,378	2,411
Non-current liabilities					
Deferred tax liabilities	13	2,716	3,051	-	-
Total non-current liabilities		2,716	3,051	-	-
Total liabilities		3,011	3,430	2,378	2,411
Net assets		26,785	27,195	26,451	27,195
Equity					
Issued capital		39,226	39,226	39,226	39,226
Reserves		170	170	170	170
Accumulated losses		(12,611)	(12,201)	(12,945)	(12,201)
Total equity		26,785	27,195	26,451	27,195

The balance sheets should be read in conjunction with the notes to the consolidated financial statements set out on pages 17 to 50.

King Island Scheelite Limited Annual Financial Report 30 June 2008

Statements of cash flows

For the year ended 30 June 2008

	Note	Consolidated		The Company	
		2008 \$000	2007 \$000	2008 \$000	2007 \$000
Cash flows used in operating activities					
Cash receipts from customers		-	-	-	-
Cash paid to suppliers and employees		(1,339)	(1,447)	(1,320)	(1,439)
Cash used in operations		(1,339)	(1,447)	(1,320)	(1,439)
Research and development expenditure tax rebate		372	109	372	109
Interest received		156	222	156	222
Other		-	-	-	5
Net cash used in operating activities	23	(811)	(1,116)	(792)	(1,103)
Cash flows used in investing activities					
Payment for property, plant and equipment		(4)	(116)	(4)	(116)
Security deposit refund		50	-	50	-
Payments for security deposits		-	(44)	-	(50)
Proceeds from sale of controlled entities		-	60	-	60
Purchase of exploration and evaluation assets		(2,028)	(2,559)	(2,028)	(2,559)
Other		-	1	-	(1)
Net cash used in investing activities		(1,982)	(2,658)	(1,982)	(2,666)
Cash flows from financing activities					
Proceeds from the issue of share capital		-	4,449	-	4,449
Capital raising costs		-	(163)	-	(163)
Net cash generated from financing activities		-	4,286	-	4,286
Net (decrease) / increase in cash and cash equivalents		(2,793)	512	(2,774)	517
Cash and cash equivalents at 1 July		3,835	3,323	3,816	3,299
Cash and cash equivalents at 30 June	8	1,042	3,835	1,042	3,816

The statements of cash flows should be read in conjunction with the notes to the consolidated financial statements set out on pages 17 to 50.

King Island Scheelite Limited Annual Financial Report 30 June 2008 Notes to the consolidated financial statements

Notes to the consolidated financial statements

1 Significant accounting policies

King Island Scheelite Limited (the "Company") is a company domiciled in Australia. The consolidated financial report of the Company for the year ended 30 June 2008 comprise the Company and its subsidiaries (together referred to as the "Consolidated Entity" or "Group") and the Consolidated Entity's interest in associates.

On 12 September 2008, the consolidated financial report was authorised for issue by the directors.

(a) Statement of compliance

The financial report is a general purpose financial report which has been prepared in accordance with Australian Accounting Standards (AASBs) (including Australian Interpretations) adopted by the Australian Accounting Standards Board (AASB) and the Corporations Act 2001. The consolidated financial report of the Group and the financial report of the Company comply with International Financial Reporting Standards (IFRSs) and interpretations adopted by the International Accounting Standards Board (IASB).

(b) Basis of preparation

The financial report is presented in Australian dollars, which is also the Company's functional currency.

The financial report is prepared on the historical cost basis.

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

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

The estimates and underlying assumptions used to support the book value of intangible assets, consisting of exploration and evaluation expenditure and mining rights, are reviewed on an ongoing basis. These assumptions include life of mine, strip ratio, finance discount rate, selective mining, USD/AUD exchange rate, production costs and AUD selling price of WO₃.

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.

King Island Scheelite Limited Annual Financial Report 30 June 2008
Notes to the consolidated financial statements (continued)

(b) Basis of preparation (continued)

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

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

(c) Basis of consolidation

Subsidiaries

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

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

Associates

Associates are those entities for which the Consolidated Entity has significant influence, but not control, over the financial and operating policies. The financial report includes the Consolidated Entity's share of the total recognised gains and losses of associates on an equity accounted basis, from the date that significant influence commences until the date that significant influence ceases. When the consolidated entity's share of losses exceeds its interest in an associate, the Consolidated Entity's carrying amount is reduced to nil and recognition of further losses is discontinued except to the extent that the Consolidated Entity has incurred legal or constructive obligations or made payments on behalf of an associate.

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

Joint ventures

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

Jointly controlled entities

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

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

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

King Island Scheelite Limited Annual Financial Report 30 June 2008
Notes to the consolidated financial statements (continued)

(c) Basis of consolidation (continued)

Jointly controlled operations and assets

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

Transactions eliminated on consolidation

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

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

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

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

(d) Property, plant and equipment

Owned assets

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

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

Subsequent costs

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

Depreciation

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

	2008	2007
▪ plant and equipment	2.5 to 7 years	2.5 to 7 years

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

King Island Scheelite Limited Annual Financial Report 30 June 2008
Notes to the consolidated financial statements (continued)

(e) Intangible assets

Mining Rights

Mining rights are stated at cost. Mining rights are amortised on a units of production basis over the life of the economically recoverable reserves, once production commences.

Exploration and evaluation expenditure

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

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

- i the expenditures are expected to be recouped through successful development and exploitation of the area of interest; or
- ii activities in the area of interest have not at the reporting date, reached a stage which permits a reasonable assessment of the existence or otherwise of economically recoverable reserves and active and significant operations in, or in relation to, the area of interest are continuing.

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

Exploration and evaluation assets are amortised on a units of production basis over the life of the economically recoverable reserves, once production commences.

(f) Trade and other receivables

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

(g) Cash and cash equivalents

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

(h) Inventories

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

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

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

King Island Scheelite Limited Annual Financial Report 30 June 2008
Notes to the consolidated financial statements (continued)

(i) Impairment

The carrying amounts of the Consolidated Entity's assets other than, inventories (see accounting policy 1(h)), and deferred tax assets (see accounting policy 1(o)), 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 income statement unless the asset has been re-valued previously in which case the impairment loss is recognised as a reversal to the extent of the previous revaluation with any excess recognised through the income statement.

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

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.

(j) Earnings per share

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

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

(k) Employee benefits

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

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

King Island Scheelite Limited Annual Financial Report 30 June 2008
Notes to the consolidated financial statements (continued)

(k) Employee benefits (continued)

Defined contribution plans

A defined contribution plan is a post-employment benefit plan under which an entity pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay further amounts. Obligations for contributions to defined contribution plans are recognised as a personnel expense in the income statement when they are due. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in future payments is available.

(l) Provisions

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

Site Restoration

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

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

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

Mine rehabilitation

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

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

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

King Island Scheelite Limited Annual Financial Report 30 June 2008
Notes to the consolidated financial statements (continued)

(l) Provisions (continued)

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

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

(m) Trade and other payables

Trade and other payable are stated at amortised cost.

(n) Financing Income

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

(o) Income tax

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

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

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

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

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

King Island Scheelite Limited Annual Financial Report 30 June 2008
Notes to the consolidated financial statements (continued)

(o) Income tax (continued)

Tax consolidation

The Company and its wholly-owned Australian resident entities are part of a tax-consolidated group. As a consequence, all members of the tax-consolidated group are taxed as a single entity from that date. 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.

The tax amounts to be paid to or from the head entity are equal to the current tax liability (asset) of each member and any tax loss deferred tax asset of each member as if each member continued to be a taxable entity in its own right, resulting in the head entity recognising an inter-entity receivable/(payable) equal in amount to the respective tax liability (asset) assumed. These inter-entity receivable (payable) amounts are at call.

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.

(p) Goods and services tax

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

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

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

(q) Derivatives

The financial entity does not hold any derivative financial instruments.

King Island Scheelite Limited Annual Financial Report 30 June 2008
Notes to the consolidated financial statements (continued)

(r) Revenue

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

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

(s) New Standards/Interpretations not yet adopted

AASB 8 *Operating Segments* introduces the "management approach" to segment reporting. AASB 8, which becomes mandatory for the Group's 30 June 2010 financial statements, will require the disclosure of segment information based on the internal reports regularly reviewed by the Group's Chief Operating Decision Maker in order to assess each segment's performance and to allocate resources to them. Currently the Group presents segment information in respect of its business and geographical segments (see note 2). The Group has not yet determined the potential effect of the revised standard on the Group's disclosures.

Revised AASB 101 *Presentation of Financial Statements* introduces as a financial statement (formerly "primary" statement) the "statement of comprehensive income". The revised standard does not change the recognition, measurement or disclosure of transactions and events that are required by other AASBs. The revised AASB 101 will become mandatory for the Group's 30 June 2010 financial statements. The Group has not yet determined the potential effect of the revised standard on the Group's disclosures.

Revised AASB 127 *Consolidated and Separate Financial Statements* changes the accounting for investments in subsidiaries. Key changes include: the re-measurement to fair value of any previous/retained investment when control is obtained/lost, with any resulting gain or loss being recognised in profit or loss; and the treatment of increases in ownership interest after control is obtained as transactions with equity holders in their capacity as equity holders. The revised standard will become mandatory for the Group's 30 June 2010 financial statements. The Group has not yet determined the potential effect of the revised standard on the Group's financial report.

AASB 2008-1 *Amendments to Australian Accounting Standard - Share-based Payment: Vesting Conditions and Cancellations* changes the measurement of share-based payments that contain non-vesting conditions. AASB 2008-1 becomes mandatory for the Group's 30 June 2010 financial statements. The Group has not yet determined the potential effect of the amending standard on the Group's financial report.

King Island Scheelite Limited Annual Financial Report 30 June 2008
Notes to the consolidated financial statements (continued)

2 Segment reporting

Business and geographical segments

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

3 Revenue

	Consolidated		The Company	
	2008	2007	2008	2007
	\$000	\$000	\$000	\$000
Other income	-	-	-	4
Inter-company management fees	-	-	-	5
	-	-	-	9

4 Employee expenses

	Consolidated		The Company	
	2008	2007	2008	2007
	\$000	\$000	\$000	\$000
Salaries and fees	405	425	405	425
Superannuation	36	29	36	29
Increase in annual leave provision	22	-	22	-
	463	454	463	454

5 Auditors' Remuneration

	Consolidated		The Company	
	2008	2007	2008	2007
	\$	\$	\$	\$
Audit services				
Auditors of the Company <i>KPMG Australia:</i>				
Audit and review of financial reports	63,500	64,800	63,500	64,800
	63,500	64,800	63,500	64,800

King Island Scheelite Limited Annual Financial Report 30 June 2008
Notes to the consolidated financial statements (continued)

6 Income tax benefit

	Consolidated		The Company	
	2008 \$000	2007 \$000	2008 \$000	2007 \$000
Numerical reconciliation between tax benefit and pre-tax net loss				
Loss before tax	(1,116)	(3,205)	(1,116)	(1,122)
Prima facie Income tax benefit using the domestic corporation tax rate of 30% (Decrease) / Increase in income tax benefit due to:	335	962	335	337
Non-deductible expenses	-	(658)	(335)	(33)
Tax losses recognised/(not recognised)	-	1,873	-	(153)
Research and development expenditure tax rebate	372	33	372	33
Non-deductible impairment of investment in associated entity	-	(30)	-	(30)
Related party loan (written off)/forgiven	-	-	-	(57)
Equity raising costs written off for tax	-	12	-	12
Other	(1)	-	-	-
Income tax benefit on pre-tax net loss	706	2,192	372	109
Recognised in the income statement				
Current year benefit	406	3,085	406	109
Deferred tax benefit/(expense)	300	(893)	(34)	-
	706	2,192	372	109

King Island Scheelite Limited Annual Financial Report 30 June 2008
Notes to the consolidated financial statements (continued)

7 Earnings per share

Basic and diluted earning per share

The calculation of basic and diluted loss per share at 30 June 2008 was based on the loss attributable to ordinary shareholders of \$410,000 (2007: \$1,013,000) and a weighted average number of ordinary shares outstanding during the year ended 30 June 2008 of 40,015,001 (2007: 37,953,936), calculated as follows:

Profit attributable to ordinary shareholders

	Consolidated	
	2008	2007
	\$000	\$000
Loss for the period	(410)	(1,013)

Weighted average number of ordinary shares

	Number of shares (thousands)	
	2008	2007
Issued ordinary shares at 1 July	40,015	35,970
Effect of shares issued 18 December 2006	-	1,690
Effect of shares issued 7 February 2007	-	160
Effect of shares issued 15 March 2007	-	134
Weighted average number of ordinary shares at 30 June	40,015	37,954

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

King Island Scheelite Limited Annual Financial Report 30 June 2008
Notes to the consolidated financial statements (continued)

8 Cash and cash equivalents

	Consolidated		The Company	
	2008 \$000	2007 \$000	2008 \$000	2007 \$000
Bank balances	1,042	365	1,042	346
Call deposits	-	3,470	-	3,470
Cash and cash equivalents in the statement of cash flows	1,042	3,835	1,042	3,816

9 Other receivables

Current

Other receivables	27	38	26	38
Security deposit	-	50	-	50
Prepayments	42	11	42	11
	69	99	68	99

Non current

Receivables due from controlled entities at fair value	-	-	2	2
Security deposits	-	33	-	-
	-	33	2	2
	69	132	70	101

10 Inventories

Finished goods	28	28	28	28
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King Island Scheelite Limited Annual Financial Report 30 June 2008
Notes to the consolidated financial statements (continued)

11 Investments accounted for using the equity method

Investments in associates

	Consolidated		The Company	
	2008 \$000	2007 \$000	2008 \$000	2007 \$000
Carrying amounts at the beginning of the financial year	-	100	-	100
Impairment of investment in associate	-	(100)	-	(100)
Carrying amounts at the end of the financial year	-	-	-	-

The Consolidated Entity accounts for investments in associates using the equity method.

Name	Principal activities	Country of incorporation	Reporting date	Ownership interest	
				2008	2007
GTN Copper Technology Pty Ltd	Evaluation of copper projects using Intec technology	Australia	30 June	36.3%	36.3%

King Island Scheelite Limited Annual Financial Report 30 June 2008
Notes to the consolidated financial statements (continued)

12 Interest in joint venture operation

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

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

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

These shares were transferred on 10 October 2007 to the purchaser. Capitalised development costs of \$178,000 were written off during the year ended 30 June 2007, as it was considered remote that there would be future receipt of royalty proceeds from the sale of sapphires from Yarandoo or Narranvale.

The contribution by the joint venture to the Consolidated Entity's operating result for the financial year ended 30 June 2008 was \$Nil (2007 \$12,000 loss). Included in the assets and liabilities of the Consolidated Entity are the following assets and liabilities employed in the joint venture:

	Consolidated		The Company	
	2008 \$000	2007 \$000	2008 \$000	2007 \$000
Current assets				
Cash assets	-	18	-	-
Total current assets	-	18	-	-
Non current assets				
Receivables	-	33	-	-
Exploration Expenditure	-	-	-	-
	-	33	-	-
Plant and equipment	-	885	-	-
Less accumulated depreciation	-	(885)	-	-
Total non current assets	-	33	-	-
Total assets	-	51	-	-
Current liabilities				
Trade creditors	-	4	-	-
Provision for mine rehabilitation	-	47	-	-
Total current liabilities	-	51	-	-
Total liabilities	-	51	-	-
Net assets	-	-	-	-

King Island Scheelite Limited Annual Financial Report 30 June 2008
Notes to the consolidated financial statements (continued)

13 Deferred tax assets and liabilities

Recognised deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following:

	Assets		Liabilities		Net	
	2008 \$000	2007 \$000	2008 \$000	2007 \$000	2008 \$000	2007 \$000
Consolidated						
Intangible assets	-	-	7,458	6,850	7,458	6,850
Provisions	(12)	(22)	-	-	(12)	(22)
Tax losses	(4,730)	(3,777)	-	-	(4,730)	(3,777)
Tax (assets)/liabilities	(4,742)	(3,799)	7,458	6,850	2,716	3,051
Set off of tax	4,742	3,799	(4,472)	(3,799)	-	-
Net tax (assets)/liabilities	-	-	2,716	3,051	2,716	3,051
	Assets		Liabilities		Net	
	2008 \$000	2007 \$000	2008 \$000	2007 \$000	2008 \$000	2007 \$000
The Company						
Intangible assets	-	-	2,376	1,768	2,376	1,768
Provisions	(12)	(8)	-	-	(12)	(8)
Tax losses	(4,372)	(3,768)	-	-	(4,372)	(3,768)
Tax (assets)/liabilities	(4,384)	(3,776)	2,376	1,768	(2,008)	(2,008)
Set off of tax	2,376	1,768	(2,376)	(1,768)	-	-
Net tax (assets)/liabilities	(2,008)	(2,008)	-	-	(2,008)	(2,008)

14 Other Financial Assets

	Consolidated		The Company	
	2008 \$000	2007 \$000	2008 \$000	2007 \$000
Non Current assets				
Shares in subsidiaries at cost	-	-	16,863	16,863
	-	-	16,863	16,863

King Island Scheelite Limited Annual Financial Report 30 June 2008
Notes to the consolidated financial statements (continued)

15 Property, Plant and Equipment

	Consolidated			The Company		
	Land \$000	Plant and equipment \$000	Total \$000	Land \$000	Plant and equipment \$000	Total \$000
Cost						
Balance at 1 July 2006	703	197	900	703	2	705
Additions	100	16	116	100	16	116
Balance at 30 June 2007	803	213	1,016	803	18	821
Balance at 1 July 2007	803	213	1,016	803	18	821
Additions	4	-	4	4	-	4
Disposals	-	(195)	(195)	-	-	-
Balance at 30 June 2008	807	18	825	807	18	825
Depreciation						
Balance at 1 July 2006	-	(195)	(195)	-	-	-
Depreciation change for the year	-	(2)	(2)	-	(2)	(2)
Balance at 30 June 2007	-	(197)	(197)	-	(2)	(2)
Balance at 30 June 2007	-	(197)	(197)	-	(2)	(2)
Disposals	-	195	195	-	-	-
Depreciation change for the year	-	(4)	(4)	-	(4)	(4)
Balance at 30 June 2008	-	(6)	(6)	-	(6)	(6)
Carrying amounts						
At 1 July 2006	703	2	705	703	2	705
At 30 June 2007	803	16	819	803	16	819
At 1 July 2007	803	16	819	803	16	819
At 30 June 2008	807	12	819	807	12	819

King Island Scheelite Limited Annual Financial Report 30 June 2008
Notes to the consolidated financial statements (continued)

16 Intangible assets

	Consolidated			The Company		
	Exploration and evaluation	Mining Rights	Total	Exploration and evaluation	Mining Rights	Total
	\$000	\$000	\$000	\$000	\$000	\$000
Cost						
Balance at 1 July 2006	3,590	9,026	12,616	3,411	-	3,411
Write down of capitalised development costs	(178)	-	(178)	-	-	-
Intangible asset adjustment ¹	-	(2,083)	(2,083)	-	-	-
Additions ²	2,559	12,896	15,455	2,559	-	2,559
Balance at 30 June 2007	5,971	19,839	25,810	5,970	-	5,970
Balance at 1 July 2007	5,971	19,839	25,810	5,970	-	5,970
Additions	2,028	-	2,028	2,028	-	2,028
Other	-	-	-	1	-	1
Balance at 30 June 2008	7,999	19,839	27,838	7,999	-	7,999

Exploration and evaluation assets

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

¹ In accordance with Australian Accounting Standards, during the financial year ended 30 June 2007 the consolidated entity recorded an adjustment to intangible assets. This related to the recognition of a deferred tax asset which arose on the acquisition of Australian Tungsten Pty Limited and qualified for recognition in the financial year ended 30 June 2007.

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

King Island Scheelite Limited Annual Financial Report 30 June 2008
Notes to the consolidated financial statements (continued)

17 Trade and other payables

	Consolidated		The Company	
	2008 \$000	2007 \$000	2008 \$000	2007 \$000
Current				
Trade payables	203	261	203	261
Other trade payables and accrued expenses	53	44	53	40
Amount payable to controlled entity	-	-	2,083	2,083
	256	305	2,339	2,384

18 Provisions-current

	Consolidated			The Company		
	Mine rehabilitation \$000	Employee Entitlement for Annual Leave \$000	Total \$000	Mine rehabilitation \$000	Employee Entitlement for Annual Leave \$000	Total \$000
Cost						
Balance at 30 June 2006	277	-	277	230	-	230
Provisions (used) / made during the year	(220)	17	(203)	(220)	17	(203)
Balance at 30 June 2007	57	17	74	10	17	27
Provisions (used) / made during the year	(57)	22	(35)	(10)	22	12
Balance at 30 June 2008	-	39	39	-	39	39

King Island Scheelite Limited Annual Financial Report 30 June 2008
Notes to the consolidated financial statements (continued)

19 Capital and reserves

Share capital

	The Company	
	2008	2007
	Number of shares	Number of shares
Ordinary shares, fully paid		
On issue at 1 July	40,015,001	35,970,026
Share issue 15 December 2006	-	3,179,364
Share issue 7 February 2007	-	408,611
Share issue 14 March 2007	-	457,000
On issue at 30 June	<u>40,015,001</u>	<u>40,015,001</u>
First Tranche Closing Performance Shares, fully paid		
On issue at 1 July	8,000,000	8,000,000
On issue at 30 June	<u>8,000,000</u>	<u>8,000,000</u>
Second tranche Closing Performance Shares, fully paid		
On issue at 1 July	8,000,000	8,000,000
On issue at 30 June	<u>8,000,000</u>	<u>8,000,000</u>

King Island Scheelite Limited Annual Financial Report 30 June 2008
Notes to the consolidated financial statements (continued)
19 Capital and reserves (continued)

	Consolidated		The Company	
	2008 \$000	2007 \$000	2008 \$000	2007 \$000
Ordinary shares, fully paid				
Balance at beginning of year	29,306	25,020	29,306	25,020
4,044,975 ordinary fully paid shares issued for cash	-	4,449	-	4,449
Less capital raising costs	-	(163)	-	(163)
Balance at end of year	29,306	29,306	29,306	29,306
First Tranche Closing Performance Shares, fully paid				
Balance at beginning of year	4,960	-	4,960	-
Value ascribed as contingent consideration on acquisition of Australian Tungsten Pty Limited ¹	-	4,960	-	4,960
Balance at end of year	4,960	4,960	4,960	4,960
Second Tranche Closing Performance Shares, fully paid				
Balance at beginning of year	4,960	-	4,960	-
Value ascribed as contingent consideration on acquisition of Australian Tungsten Pty Limited	-	4,960	-	4,960
Balance at end of year	4,960	4,960	4,960	4,960

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

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

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

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

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

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

King Island Scheelite Limited Annual Financial Report 30 June 2008
Notes to the consolidated financial statements (continued)

19 Capital and reserves (continued)

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

	Consolidated		The Company	
	2008 \$000	2007 \$000	2008 \$000	2007 \$000
Total issued capital at end of year	39,226	39,226	39,226	39,226

Closing Performance Shares

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

Holders of CPS have:

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

King Island Scheelite Limited Annual Financial Report 30 June 2008
Notes to the consolidated financial statements (continued)

20 Financial Instruments

Effective interest rates and repricing analysis

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

Consolidated	Effective	Total	6 months	6-12	1-2	2-5	More than
	interest rate						
	%	\$000	\$000	\$000	\$000	\$000	\$000
2008							
Cash and cash equivalents	6.4	1,042	1,042	-	-	-	-
2007							
Cash and cash equivalents	6.2	3,835	3,835	-	-	-	-
The Company							
2008							
Cash and cash equivalents	6.4	1,042	1,042	-	-	-	-
2007							
Cash and cash equivalents	6.2	3,816	3,816	-	-	-	-

Fair values

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

Consolidated	Note	Carrying	Fair	Carrying	Fair value
		amount	value	amount	
		2008	2008	2007	2007
		\$000	\$000	\$000	\$000
Trade and other receivables	9	69	69	132	132
Cash and cash equivalents	8	1,042	1,042	3,835	3,835
Trade and other payables	17	(256)	(256)	(305)	(305)
		855	855	3,662	3,662
The Company					
Trade and other receivables	9	70	70	101	101
Cash and cash equivalents	8	1,042	1,042	3,816	3,816
Trade and other payables	17	(2,339)	(2,339)	(2,384)	(2,384)
		(1,227)	(1,227)	1,533	1,533

King Island Scheelite Limited Annual Financial Report 30 June 2008
Notes to the consolidated financial statements (continued)

21 Lease and exploration expenditure commitments

	Consolidated		The Company	
	2008 \$000	2007 \$000	2008 \$000	2007 \$000
Lease commitments				
Non-cancellable operating lease				
Contracted but not provided for and payable:				
Within one year	11	26	11	26
One year or later and not later than five years	-	11	-	11
Later than five years	-	-	-	-
	11	37	11	37

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

Exploration expenditure commitments

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

	Consolidated		The Company	
	2008 \$000	2007 \$000	2008 \$000	2007 \$000
Within one year	133	168	-	-
One year or later and not later than five years	-	-	-	-
Later than five years	-	-	-	-
	133	168	-	-

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King Island Scheelite Limited Annual Financial Report 30 June 2008
Notes to the consolidated financial statements (continued)

22 Consolidated entities

	Note	Country of incorporation	Ownership interest	
			2008 %	2007 %
Parent entity				
King Island Scheelite Limited		Australia		
Subsidiaries				
Scheelite Management Pty Ltd		Australia	100	-
GTN Tanzania Pty Ltd		Tanzania	100	100
GTN Operations Pty Ltd		Tanzania	65	65
Eastern Feeder Holdings Pty Ltd	12	Australia	-	100
Australian Tungsten Pty Ltd		Australia	100	100

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

23 Reconciliation of cash flows from operating activities

	Consolidated		The Company	
	2008 \$000	2007 \$000	2008 \$000	2007 \$000
Cash flows from operating activities				
Net loss attributable to members of the parent	(410)	(1,013)	(744)	(1,013)
Adjustments for:				
(Receipts) / Payments for security deposits	(50)	44	(50)	50
Depreciation and impairment	4	2	4	2
Write down of capitalised development costs	-	178	-	-
Impairment of investment in associate	-	100	-	100
Operating loss before changes in working capital and provisions	(456)	(689)	(790)	(861)
Decrease/ (increase) in receivables	64	(43)	31	146
(Increase)/decrease in intangibles	-	(893)	-	-
(Increase)/ decrease in deferred tax asset	-	-	-	(2,008)
(Decrease)/ Increase in payables	(49)	(191)	(45)	1,889
(Decrease)/ Increase in provisions	(35)	(193)	12	(194)
(Decrease)/ Increase in deferred tax liability	(335)	893	-	(75)
Net cash used in operating activities	(811)	(1,116)	(792)	(1,103)

24 Key management personnel disclosures

Individual directors and executive compensation disclosures

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

King Island Scheelite Limited Annual Financial Report 30 June 2008
Notes to the consolidated financial statements (continued)

24 Key management personnel disclosures (continued)

Movements in securities

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

Directors	Securities	Held at 1 July	Acquired	Sold	Other Changes ¹	Held at 30 June
Year ended 30 June 2008						
Anthony Haggarty	Fully paid ordinary shares	4,017,589	10,000 ² 9,000 ³	-	-	4,036,589
Robin Morritt	Fully paid ordinary shares	5,555,000	-	-	-	5,555,000
	First tranche closing performance shares	4,000,000	-	-	-	4,000,000
	Second tranche closing performance shares	4,000,000	-	-	-	4,000,000
Andrew Plummer	Fully paid ordinary shares	884,146	-	-	-	884,146
Year ended 30 June 2007						
Raymond Soper ⁴	Fully paid ordinary shares	162,512	-	-	(162,512)	-
	First tranche options	196,875	-	-	(196,875)	-
	Second tranche options	253,125	-	-	(253,125)	-
Anthony Haggarty	Fully paid ordinary shares	3,642,889	7,700 ³ 367,000 ⁵	-	-	4,017,589
Robin Morritt	Fully paid ordinary shares	5,555,000	-	-	-	5,555,000
	First tranche closing performance shares	4,000,000	-	-	-	4,000,000
	Second tranche closing performance shares	4,000,000	-	-	-	4,000,000
Andrew Plummer	Fully paid ordinary shares	794,146	90,000 ⁵	-	-	884,146

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

¹ De-recognition on retirement as a Director of the Company.

² Off-market trade.

³ On-market trade.

⁴ Mr. Soper retired as a Director on 31 March 2007.

⁵ Ordinary fully paid shares were issued during the year in accordance with the Company's market placement and share purchase plan.

King Island Scheelite Limited Annual Financial Report 30 June 2008
Notes to the consolidated financial statements (continued)

24 Key management personnel disclosures (continued)

Equity holdings and transactions

Directors' transactions with the Company or its controlled entities

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

	Consolidated		The Company	
	2008	2007	2008	2007
	\$	\$	\$	\$
Accounts Payable - current				
Anthony Haggarty	15,557	-	15,557	-
Robin Morrill	859	-	859	-
Andrew Plummer	7,913	-	7,913	-

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

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

	Consolidated		The Company	
	2008	2007	2008	2007
	\$	\$	\$	\$
Office rent and supplies	45,867	14,646	45,867	14,646
	45,867	14,646	45,867	14,646

This office sub-rental agreement was terminated effective 31 May 2008.

King Island Scheelite Limited Annual Financial Report 30 June 2008
Notes to the consolidated financial statements (continued)

25 Non key management personnel disclosures

Identity of related parties

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

Other related party transactions

The classes of non-director related parties are:

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

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

Wholly-owned group loans

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

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

	Note	Consolidated		The Company	
		2008 \$000	2007 \$000	2008 \$000	2007 \$000
Receivables					
Current	9	-	-	2	2
Payables					
Current	17	-	-	2,083	2,083

Partly owned controlled entities

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

26 Financial Risk Management

Overview

This note presents information about the Company's and 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 Company and 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.

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King Island Scheelite Limited Annual Financial Report 30 June 2008
Notes to the consolidated financial statements (continued)

26 Financial Risk Management (continued)

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, and arises principally from the Group's receivables from customers and investment securities. For the Company it arises from receivables due from subsidiaries. Presently, the Group undertakes exploration and evaluation activities exclusively in Australia. At the balance sheet date there were no significant concentrations of credit risk.

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.

Trade and other receivables

As the Group operates primarily in exploration activities, it does not have trade receivables and therefore is not exposed to credit risk in relation to trade receivables.

As it has been estimated that there are no incurred losses, the Company and Group have not established an allowance for impairment in respect of other receivables and investments. The management does not expect any counterparty to fail to meet its obligations.

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	Consolidated		The Company	
		Carrying Amount		Carrying Amount	
		2008	2007	2008	2007
		\$000	\$000	\$000	\$000
Current					
Cash and cash equivalents	8	1,042	3,835	1,042	3,816
Other receivables		27	38	26	38
Security deposit		-	50	-	50
Prepayments		42	11	42	11
Non current					
Receivables due from controlled entities at fair value		-	-	2	2
Security deposits		-	33	-	-

Impairment losses

None of the Group's other receivables are past due (2007: nil).

King Island Scheelite Limited Annual Financial Report 30 June 2008
Notes to the consolidated financial statements (continued)

26 Financial Risk Management (continued)

Exposure to credit risk (continued)

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 Group does not have any external borrowings.

The Company anticipates a need to raise additional capital in the next 12 months to meet forecast operational and exploration activities. 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:

Consolidated
30 June 2008

	Carrying amount \$000	Contractual cash flows \$000	6 mths or less \$000	6-12 mths \$000	1-2 years \$000	2-5 years \$000
Trade payables	203	203	203	-	-	-
Other trade payables and accrued expenses	53	53	53	-	-	-

Consolidated
30 June 2007

	Carrying amount \$000	Contractual cash flows \$000	6 mths or less \$000	6-12 mths \$000	1-2 years \$000	2-5 years \$000
Trade payables	261	261	261	-	-	-
Other trade payables and accrued expenses	44	44	44	-	-	-

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.

King Island Scheelite Limited Annual Financial Report 30 June 2008
Notes to the consolidated financial statements (continued)

26 Financial Risk Management (continued)

Currency risk

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

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:

	Consolidated Carrying amount		Company Carrying amount	
	2008 \$000	2007 \$000	2008 \$000	2007 \$000
Fixed rate instruments				
Financial assets	-	3,470	-	3,470
	-	3,470	-	3,470
Variable rate instruments				
Financial assets	1,042	365	1,042	346
	1,042	365	1,042	346

Fair value sensitivity analysis for fixed rate instruments

The Group 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.

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King Island Scheelite Limited Annual Financial Report 30 June 2008
Notes to the consolidated financial statements (continued)

26 Financial Risk Management (continued)

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 Management

The Group's objectives when managing capital 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 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 to fund exploration and evaluation activities. The Group monitors capital on the basis of the gearing ratio, however there are no external borrowings as at balance date.

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.

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

Land

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

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

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

King Island Scheelite Limited Annual Financial Report 30 June 2008
Notes to the consolidated financial statements (continued)

27 Contingencies (continued)

The Company has also agreed to pay an additional \$100,000 upon the date upon which the Company, acting reasonably, commences re-development construction relating to its King Island mine including but not limited to the commencement of construction of infrastructure, processing plant and all other ancillary mining and extractive industry infrastructure construction.

28 Subsequent events

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

Hunan Nonferrous Metals Corporation ('HNC')

Following the signing of a non-binding letter of intent earlier in the year, the Company entered into a Principles of Agreement (POA) with HNC on the 13 August 2007. This POA outlined how the Company and HNC intended to re-develop the King Island Project. On the 19 December 2007 this POA was converted into a series of binding agreements, wherein:

- HNC would subscribe to 4.45 million shares in the Company, at an issue price of \$1.00 per share. This placement would be approximately equal to 10% of the issued capital of KIS immediately after the placement is made
- One representative from HNC would be invited to join the Company's Board
- An unincorporated joint venture, to be called the Dolphin Joint Venture (DJV) would be formed, with the Company and HNC holding equal shares. Capital costs, operating costs and product produced by the DJV would be shared equally between the partners.
- HNC would provide debt funding to the Company to meet the Company's 50% share of construction and other pre-production costs. Repayment of this debt will be linked to the Company's 50% share of net cash flow from the Project
- A fully owned subsidiary of the Company, Scheelite Management Pty Ltd, will manage the construction and operation of the Project.
- Both the Company and HNC will market their respective shares of output from the Project on the most favourable terms available to each party.

The agreements contain a number of conditions precedent which must be satisfied or waived before re-development of the project and the events listed above can occur. The most significant of these are:

- Approval is granted by the Australian Foreign Investment Review Board for HNC to invest in the project
- Approval is granted by the relevant Chinese authorities for HNC to invest in the project
- HNC must be satisfied with the assessment of stamp duty payable to the Tasmanian State Revenue Office
- The Tasmanian Minister for Mining indicates that a mining lease will be issued in the names of both the Company and HNC
- The Tasmanian Minister for Mining indicates his approval to the transfer of a 50% interest in mineral tenements EL 16/2002, EL 19/2001 and RL 2/1998 to HNC
- North Mining Limited agrees to waive its pre-emptive rights under the agreement in which ATPL acquired the Project from North Mining Limited
- The Company receives approval from its shareholders to complete the transaction with HNC
- Rio Tinto Exploration Pty Limited confirms that it will not object to the Mining Tribunal against an application for approval to transfer a 50% interest in RL 2/1998 to HNC.
- The Company and HNC enter into an agreement with the King Island Council to purchase the land upon which the Project is situated

King Island Scheelite Limited Annual Financial Report 30 June 2008
Notes to the consolidated financial statements (continued)

28 Subsequent events (continued)

At 30 June 2008 all of these conditions precedent had been either satisfied or waived, with the exception of the receipt of approvals from the Chinese authorities.

On 3 September 2008 the Company announced to the market that HNC had advised the Company that the outstanding approvals from the Chinese Government authorities were received, and consequently the Company deemed the joint venture agreements to be unconditional from that date.

HNC subscribed for 4.45 million Shares at \$1.00 each Share on 12 September 2008.

The Company and HNC now plan to commence work on re-development of the Project.

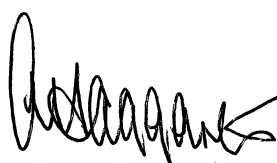
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King Island Scheelite Limited Annual Financial Report 30 June 2008

Directors' Declaration

- 1 In the opinion of the directors of King Island Scheelite Limited (the Company):
 - (a) the financial statements and notes and the remuneration disclosures set out on pages 6 to 8 and 13 to 50, are in accordance with the Corporations Act 2001, including:
 - (i) giving a true and fair view of the Company's and Group's financial position as at 30 June 2008 and of their performance, for the financial year ended on that date; and
 - (ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the Corporations Regulations 2001;
 - (b) the financial report also complies with International Financial Reporting Standards as disclosed in note 1(a); and
 - (c) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.
- 2 The directors have been given the declarations required by Section 295A of the Corporations Act 2001 from the chief executive officer and chief financial officer for the financial year ended 30 June 2008.

Signed in accordance with a resolution of the directors.



Anthony Haggarty

Director

Sydney

12 September 2008



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

To the directors of King Island Scheelite Limited:

I declare that, to the best of my knowledge and belief, in relation to the audit for the financial year ended 30 June 2008, there have been:

- (i) no contraventions of the auditor independence requirements as set out in the Corporations Act 2001 in relation to the audit; and
- (ii) no contraventions of any applicable code of professional conduct in relation to the audit.

KPMG

KPMG

Anthony Jones
Partner

Sydney
12 September 2008

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

Report on the financial report

We have audited the accompanying financial report of King Island Scheelite Limited (the Company), which comprises the balance sheets as at 30 June 2008, and the income statements, statements of changes in equity and cash flow statements for the year ended on that date, a summary of significant accounting policies and other explanatory notes 1 to 28 and the directors' declaration set out on pages 13 to 51 of the Group comprising the company and the entities it controlled at the year's end or from time to time during the financial year.

Directors' responsibility for the financial report

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

Auditor's responsibility

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

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

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

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

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Auditor's opinion

In our opinion:

- (a) the financial report of King Island Scheelite Limited is in accordance with the *Corporations Act 2001*, including:
 - (i) giving a true and fair view of the Company's and the Group's financial position as at 30 June 2008 and of their performance for the year ended on that date; and
 - (ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the Corporations Regulations 2001.
- (b) the financial report also complies with International Financial Reporting Standards as disclosed in note 1.

Report on the remuneration report

We have audited the Remuneration Report included in pages 6 to 8 of the directors' report for the year ended 30 June 2008. 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 responsibility is to express an opinion on the remuneration report, based on our audit conducted in accordance with auditing standards.

Auditor's opinion

In our opinion, the remuneration report of King Island Scheelite Limited for the year ended 30 June 2008, complies with Section 300A of the *Corporations Act 2001*.

KPMG

Anthony Jones
Partner

Sydney

12 September 2008

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King Island Scheelite Limited Annual Financial Report 30 June 2008

Shareholder Information

At 29 August 2008 issued capital was 40,015,001 ordinary fully paid shares held by 804 holders.

At a general meeting on a show of hands, each shareholder present has one vote and on a poll each shareholder present has:

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

20 Largest Holders of Ordinary Shares and their Holdings at 29 August 2008.

	Ordinary Shares	
	Number	Proportion Of Issued Shares
1 CATHERINE MORRITT	5,555,000	13.9%
2 ABEX RESOURCES AUSTRALIA PTY LTD	4,974,676	12.4%
3 THE GLEN RURAL PTY LTD	3,994,504	10.0%
4 ANZ NOMINEES PTY LTD	3,477,134	8.7%
5 CHRYSALIS INVESTMENTS PTY LTD	2,249,922	5.6%
6 ROBYN ELIZABETH GIBSON	2,030,793	5.1%
7 INVIA CUSTODIAN PTY LIMITED	1,232,964	3.1%
8 SERLETT PTY LTD	965,208	2.4%
9 CHRIS ELLIS COAL SERVICES PTY LTD	932,775	2.3%
10 VICTOR JOHN PLUMMER	802,382	2.0%
11 ANDREW HENDERSON PLUMMER	744,146	1.9%
12 ROBERT SLADE FORBES	500,000	1.2%
13 MOBUCK INVESTMENTS PTY LTD	482,777	1.2%
14 VIEWADE PTY LIMITED	474,090	1.2%
15 FORBAR CUSTODIANS LIMITED	400,000	1.0%
16 ROGER MASSY-GREENE	365,267	0.9%
17 RIGI INVESTMENTS PTY LTD	330,000	0.8%
18 OZHANSA PTY LIMITED	312,454	0.8%
19 GOH GEOK KHIM	300,000	0.7%
20 SOCIETE GENERALE AUSTRALIA BRANCH	300,000	0.7%
Total top 20 Ordinary Shareholders	<u>30,424,092</u>	<u>75.9%</u>

Distribution of Holders and Holdings at 29 August 2008

	Ordinary Shares	
	Number Of Holders	Shares Held
1 - 1,000	336	74,646
1,001 - 5,000	164	506,358
5,001 - 10,000	102	828,742
10,001 - 100,000	167	5,919,508
100,001 and over	35	32,685,747
Total	<u>804</u>	<u>40,015,001</u>

Holders of less than a marketable parcel:

-

King Island Scheelite Limited Annual Financial Report 30 June 2008

Shareholder Information (continued)

Substantial Shareholders

Substantial shareholders at 29 August 2008, as disclosed in Substantial Shareholder Notices given to the Company

	Number Of Shares	Proportion Of Issued Shares
Catherine Jeanne Morritt	5,555,000	14.19%
Abex Resources Australia Pty Ltd	4,474,676	12.68%
The Glen Rural Pty Ltd	4,017,589	10.04%
Robyn Elizabeth Gibson	2,252,787	5.6%

Unquoted Securities

First Tranche Closing Performance Shares

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

Second Tranche Closing Performance Shares

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

First Tranche Options

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

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

Second Tranche Options

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

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

King Island Scheelite Limited Annual Financial Report 30 June 2008

Mining Tenements

The Company holds the following licences and lease:

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

Securities Exchange Listing

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

Share Registrar

Computershare Investor Services Pty Ltd Level 2 45 St Georges Terrace Perth WA 6000	GPO Box D182 Perth WA 6840
Telephone:	+61 8 9323 2000 1300 55 70 10 (within Australia)
Facsimile:	+61 8 9323 2033
Web site:	http://www-au.computershare.com

Registered Office

Level 9, 1 York Street
Sydney NSW 2000

Telephone: (02) 9250 0111
Facsimile: (02) 9241 6953
Email: info@kingislandscheelite.com.au
Web site:
<http://www.kingislandscheelite.com.au>

Auditor

KPMG
10 Shelley Street
Sydney NSW 2000

Telephone: (02) 9335 7000
Facsimile: (02) 9299 7077

Web site:
<http://www.kpmg.com.au>

On-Market Buy Back

There is no on-market buy-back.