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King Island Scheelite Limited
ABN 40 004 681 734

and its controlled entities

ANNUAL FINANCIAL REPORT

30 June 2010

King Island Scheelite Limited Annual Financial Report 30 June 2010

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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 Managing Director of the publicly listed Whitehaven Coal Limited (appointed Director on 3 May 2007) and Non-Executive Director of publicly listed IMX Resources NL (appointed 29 January 2008).

Tony was a Managing Director of the publicly listed company Excel Coal Limited (for the period 3 May 2004 to 25 October 2006).

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

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

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

Andy has over 30 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 an Executive Director of publicly listed Whitehaven Coal Ltd (appointed 3 May 2007), and a Director of XLX Pty Ltd and Chairman of Ranamok Glass Prize Ltd.

Zeng Shao Xiong Independent Non-Executive Director, (appointed 16 September 2008)

Mr. Zeng joined the Board in September 2008, following completion of the joint venture agreements with Hunan Nonferrous Metals (HNC). He graduated in 1981 from the Central South Institute of Mining and Metallurgy, Hunan Province, majoring in ore processing. He is currently Chairman of the Supervisory Committee of HNC and is also Deputy General Manager of Hunan Nonferrous Metals Holding Group Co. Ltd, the parent company of HNC and previously the manager of Hunan Shizhuyuan Nonferrous Metals Co., Ltd, which holds a reserve of tungsten totalling 747,000 tons and representing 20.7% of the world's total tungsten deposits.

Mr. Zeng appointed Mr Fan Xueqiang to be his alternate director

Mr Zeng is also a director of Abra Mining Limited (appointed 16 October 2008)

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Directors' report (continued)

Fan Xueqiang **Alternate Director to Mr Zeng**, (appointed 16 September 2008) *Mining Engineering MBA*

Mr Fan is Executive Deputy Manager of HNC (Australia) Resources Holding Limited. He joined HNC in 2006 after more than ten years with the Institute of Mining Research in China, the last one as Deputy Chief of Science, Technology & Industry. He was previously Secretary-General of China Non-ferrous Metal Industry Mining Information Network and Secretary-General of the Mining Institute Committee in China.

Company Secretary

Mr Ian Morgan *B Bus, MCommLaw, CA, ACIS, MAICD, F Fin*, was appointed Company Secretary on 3 August 2005. Mr Morgan is a Chartered Accountant and Chartered Company Secretary, with over 25 years experience. He provides secretarial and advisory services to a range of companies, and is company secretary of other publicly listed companies.

Directors' meetings

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

	<i>Board Meetings</i>		<i>Audit Committee Meetings</i>	
	A	B	A	B
Anthony Haggarty	11	9	2	2
Robin Morrill	11	11	2	2
Andrew Plummer	11	11	2	2
Zeng Shao Xiong (either personally or by his Alternate Fan Xueqiang)	11	6	2	1

A Number of meetings director was eligible to attend.

B Number of meetings director attended.

Principal activities

The principal activity of the King Island Scheelite Group during the year was:

1. The assessment of the tungsten mine on King Island through the Dolphin Joint Venture; and
2. The exploration and evaluation of tenements in North West Tasmania through the Balfour Joint Venture.

For details of the Dolphin and Balfour Joint Ventures, see Note 10.

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

Dolphin Joint Venture (DJV) – 50% interest

A joint venture with Hunan Nonferrous Metals Corporation (HNC) focusing on the redevelopment of the tungsten deposit on King Island.

During the year, the DJV progressed work on exploration, evaluation and development of a mining operation. Key activities included:

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Directors' report (continued)

1. Utilised metallurgical test work to design and cost a mill based on Whole Ore Flotation techniques to produce 65% concentration at 90% recovery.
2. With additional geotechnical information, concluded assessments of various mining options.
3. Developed a viable underground mining option, based on:
 - a. Revised resource and reserves; and
 - b. Rehabilitating the existing decline to mine 300,000 tonnes p.a. @ 1.3% WO₃
4. Established the potential for Bold Head to add further value to this project.
5. Identified the potential of further down-plunge ore at Dolphin.

The next phase of this project is detailed mine design and is currently awaiting Joint Venture participant approval.

Balfour Joint Venture (BJV) – 35% interest

A joint venture with Pleiades Resources Pty Ltd formed on 9 February 2009 to explore for tin and tungsten within Balfour tenements in North West Tasmania.

Following encouraging results from a ground based gravity survey, a drilling programme was undertaken with tin-tungsten intercepts at Specimen Hill and Copper-Gold intercepts at Roaring 41 South, with analysis to be finalised.

On completion of this programme, the Company's interest will increase to 70% and the Company will manage any future activities.

Financial

The Company's Group retained a cash balance of \$2,621,000 at 30 June 2010 (2009 \$3,745,000).

The DJV project remains fully funded through the existing joint venture arrangements with HNC. These arrangements include a \$63,250,000 loan facility (see Note 17) for the Company's 50% share of the King Island Mine development costs. At the date of this report, \$1,768,000 (2009 \$815,000) has been drawn down from this facility.

Outlook

Funding and essential approvals are in place and key economic indicators remain favourable for the DJV. The Company intends to progress this project during the coming year.

With the initial drilling programme complete, the Company will assess the potential for future exploration within these tenements.

Dividends

There were no Dividends paid or declared by the Company to members during or since the end of the financial year (2009 Nil).

King Island Scheelite Limited Annual Financial Report 30 June 2010
Directors' report (continued)

Events subsequent to the reporting 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.

Directors' interests

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

King Island Scheelite Limited	Number of ordinary fully paid shares
Anthony Haggarty	4,036,589
Robin Morritt	13,555,000
Andrew Plummer	884,146
Zeng Shao Xiong	-
Fan Xueqiang	-

Environmental regulation

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 and auditors

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 \$25,120 (2009 \$29,286), 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	
	2010	2009
	\$	\$
Auditors of the Company		
<i>KPMG Australia</i>		
Audit and review of financial reports	53,000	52,500

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Directors' report (continued)

Remuneration Report (Audited)

The Company has 4 non-executive directors and 1 chief executive officer. A remuneration policy is in place for the chief executive officer.

Contract terms and conditions

All directors are paid for the time incurred in attending board meetings. 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 or the Chief Executive Officer 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 (2009 \$30,987 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.

Dr Morritt (Non-Executive)

During the financial year, Dr Morritt was paid at the rate of \$26,400 p.a. plus 9% statutory superannuation (2009 \$26,400 p.a. plus 9% statutory superannuation plus a telephone cost allowance \$2,960) 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 Plummer (Non-Executive)

During the financial year, an entity controlled by Mr. Plummer was paid at the rate of \$26,400 p.a. plus 9% statutory superannuation (2009 \$26,400 p.a. plus 9% statutory superannuation) for Mr Plummer 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.

Mr Zeng (Non-Executive)

During the financial year, an entity associated with Mr Zeng was paid at the rate of \$26,400 p.a. plus 9% statutory superannuation (2009 \$26,400 p.a. plus 9% statutory superannuation) for Mr Zeng 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 Zeng.

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Directors' report (continued)

Remuneration Report (continued)

Mr. Simon Bird (Chief Executive Officer)

Mr Bird was appointed Chief Executive Officer on 1 January 2009 and his current employment contract is summarised as follows:

Base Remuneration	\$357,350 per annum inclusive of salary and 9% superannuation.
Incentive Payment	At the Board's discretion, a cash bonus may be paid on anniversary (\$30,000 was paid in April 2010, relating to the 2009 calendar year).
Options	On 21 January 2009, three tranches of options were issued to Mr Bird. Details of these options are set out below. If Mr Bird ceases to be an employee of the Company, for any reason, those of the options which have not vested will lapse, unless the Board resolves otherwise.
Annual, Personal and Long Service Leave	Mr Bird is entitled to standard statutory annual leave, personal (sick) leave and long service leave.
Termination	Either the Company or Mr Bird may terminate Mr Bird's employment at any time with one month's written notice. If Mr Bird has completed at least five years continuous service with the Company, the Board will give one week additional written notice.

Upon termination, retrenchment, redundancy or retirement:

- (a) All untaken annual leave since the 1 January 2009 will be paid on the remuneration package applicable at termination;
- (b) All untaken LSL will be paid on the remuneration package applicable at termination;
- (c) All outstanding business expenses (telephone, company expenses) will be paid up to the date of termination; and
- (d) Payment in lieu of notice or part of the notice period may be paid on the remuneration package applicable at termination.

In the event of Mr Bird's retrenchment or redundancy, the Company will pay Mr Bird an amount equal to six months of his annual remuneration package applicable at the time of termination.

The Board may terminate Mr Bird's employment agreement at any time without prior notice if he commits any serious or persistent breach of any of the provisions of that agreement or the Board has reasonable grounds to suspect that he has engaged in serious misconduct or wilful neglect in the discharge of his duties.

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Directors' report (continued)

Remuneration Report (continued)

Options issued to Directors or Executives

There were no options issued to Directors or Executives during or since the end of the financial year, nor during the previous financial year; except 4,500,000 options granted on 21 January 2009 to Mr Bird as follows:

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

- (a) 1,000,000 options (Tranche 1 Options) vesting on 1 January 2010, after continuous employment of one year and for an Exercise Price of A\$ 25 cents each;
- (b) 1,500,000 options (Tranche 2 Options) vesting on 1 January 2011, after continuous employment of two years and for an Exercise Price of A\$ 50 cents each ; and
- (c) 2,000,000 options (Tranche 3 Options) vesting on 1 January 2012 and after continuous employment of three years and for an Exercise Price of A\$1.00 each.

The Expiry Date of all these Options is 31 December 2013.

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

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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			Total	Post-employment	Other long term	Termination benefits	Share-based payments	Total	Proportion of remuneration performance related	Value of options as proportion of remuneration %
		Salary & fees	Cash bonus	Non-monetary benefits		Super benefits						
		\$	\$	\$	\$	\$	\$	\$	\$	\$		
Directors												
A Haggarty ¹	2010	30,987	-	-	30,987	2,789	-	-	-	33,776	-	-
	2009	30,987	-	-	30,987	2,789	-	-	-	33,776	-	-
R Morritt ²	2010	26,400³	-	-	26,400	2,376	-	-	-	28,776	-	-
	2009	29,360 ³	-	-	29,360	2,376	-	-	-	31,736	-	-
A Plummer ¹	2010	26,400	-	-	26,400	2,376	-	-	-	28,776	-	-
	2009	26,400	-	-	26,400	2,376	-	-	-	28,776	-	-
Zeng Shao Xiong ⁴	2010	26,400	-	-	26,400	2,376	-	-	-	28,776	-	-
	2009	20,900	-	-	20,900	1,881	-	-	-	22,781	-	-
Executive												
S Bird (CEO appointed 1/1/2009)	2010	329,562	30,000	2,436	361,998	23,412	-	-	90,000	475,410	120,000	25.2
	2009	158,316	-	2,436	160,752	14,248	-	-	67,500	242,500	67,500	27.8
N Lambeth (CEO resigned 31/12/2008) ⁴	2010	-	-	-	-	-	-	-	-	-	-	-
	2009	151,376	40,000	-	191,376	17,224	-	51,543	-	260,143	40,000	15.4
Total compensation (Consolidated Entity and Company)	2010	439,749	30,000	2,436	472,185	33,329	-	-	90,000	595,514	120,000	20.1
	2009	417,339	40,000	2,436	459,775	40,894	-	51,543	67,500	619,712	107,500	17.3

¹ For the year ended 30 June 2010 the Company paid a total of \$89,527 (2009 \$128,380) to companies controlled by Messrs. Haggarty and Plummer for Mr. Haggarty's director fees \$33,776 (2009 \$33,776), Mr Plummer's director fees \$28,776 (2009 \$28,776), office sub-rental and services and office supplies \$Nil (2009 \$8,500) and consulting services \$26,975 (2009 \$57,328).

² In addition to director fees paid to Dr Morritt personally, for the year ended 30 June 2010 the Company paid consulting fees totalling \$4,600 (2009 \$57,500) to a company controlled by Dr Morritt.

³ Includes a telephone allowance totalling \$2,960 paid to Dr Morritt in 2009. No such allowance was paid in 2010.

⁴ For the year ended 30 June 2010 the Company also paid consulting fees totalling \$Nil (2009 \$3,520) to Mr. Lambeth.

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Directors' report (continued)

Remuneration Report (continued)

Shares under option

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

	Grant Date	Fair value per option at grant date	Exercise price per option	Expiry date	Number of options	Number of vested options	
						2010	2009
		\$	\$				
Executive S Bird	21 Jan 2009	9 cents	25 cents	31 Dec 2013	1,000,000	1,000,000	-
	21 Jan 2009	6 cents	50 cents	31 Dec 2013	1,500,000	-	-
	21 Jan 2009	Nil	\$1.00	31 Dec 2013	2,000,000	-	-
					<u>4,500,000</u>	<u>1,000,000</u>	<u>-</u>

No options have been granted since the end of the financial year.

Unless the Board resolves otherwise, all options granted to S Bird expire on the earlier of their expiry date or termination of the individual's employment. The options are exercisable for five years from employment date (1 January 2009). For options granted during the year ended 30 June 2009, the earliest exercise date was 1 January 2010.

The options were provided at no cost to the recipient.

No terms of equity settled share-based payment transactions (including options and rights granted as compensation to a key management person) have been altered or modified by the issuing entity during the reporting period or the prior period.

During the previous financial year, the following shares were issued on the exercise of options previously granted as compensation:

		Number of shares issued	Amount paid per share \$/share
2009			
Former Directors	R Soper	450,000	0.001 cents
	K Heywood	450,000	0.001 cents
Former Executive	N Jones	100,000	0.001 cents
		<u>1,000,000</u>	

There are no amounts unpaid on the shares issued as a result of the exercise of these options.

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Directors' report (continued)

Remuneration Report (continued)

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

	Grant Date	Date at which grant vests	Number	Vested		Forfeited ⁵	
				2010 %	2009 %	2010 %	2009 %
Executive							
S Bird	21 January 2009	1 January 2010	1,000,000	100.0	-	-	-
	21 January 2009	1 January 2011	1,500,000	-	-	-	-
	21 January 2009	1 January 2012	2,000,000	-	-	-	-
			<u>4,500,000</u>	<u>22.2</u>	-	-	-

The movement during the reporting period, by value, of options over ordinary shares in the Company held by each key management person of the Group and each of the five named Company executives and Group executives is detailed below:

		Granted in year ⁶		Value of options Exercised in year ⁷		Lapsed in year ⁸	
		2010 \$	2009 \$	2010 \$	2009 \$	2010 \$	2009 \$
Executive	S Bird	-	180,000	-	-	-	-
Former Directors	R Soper	-	-	-	89,996	-	-
	K Heywood	-	-	-	89,996	-	-
Former Executive	N Jones	-	-	-	19,998	-	-
		<u>-</u>	<u>180,000</u>	<u>-</u>	<u>199,990</u>	<u>-</u>	<u>-</u>

⁵ The % forfeited in the year represents the reduction from the maximum number of options available to vest due to performance criteria not being achieved.

⁶ The value of options granted in the year is the fair value of the options calculated at grant date using a Black-Scholes pricing model. The total value of the options granted is included in the table above. This amount is allocated to remuneration over the vesting period (i.e. in the period 1 January 2009 to 1 January 2012).

⁷ The value of options exercised during the year is calculated as the market price of shares of the Company as at close of trading on the date the options were exercised after deducting the price paid to exercise the option.

⁸ The value of options that lapse during the year represents the benefit foregone and is calculated at the date the option lapsed using a pricing model assuming the performance criteria had been achieved. No options lapsed in the year.

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Directors' report (continued)

Remuneration Report (continued)

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

Expiry date	Vesting date	Issue price of shares A\$	Number of shares under option
31 December 2013	1 January 2010	25 cents	1,000,000
31 December 2013	1 January 2011	50 cents	1,500,000
31 December 2013	1 January 2012	\$1.00	2,000,000
			<u>4,500,000</u>

Unless the Board resolves otherwise, all options expire on the earlier of their expiry date or termination of the individual's employment. Subject to vesting and termination of the individual's employment, the options are exercisable for five years from employment date (1 January 2009).

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.

During or since the end of the financial year, the Company issued ordinary shares as a result of the exercise of options and closing performance shares as follows:

	Number of shares		Amount paid per share	
	2010	2009	2010 Cents	2009 Cents
Options	-	1,000,000	-	0.001
Closing Performance Shares	-	16,000,000	-	0.001
	-	<u>17,000,000</u>	-	<u>0.001</u>

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Directors' report (continued)

Corporate Governance

Unless disclosed below, all the best practice recommendations of the ASX Corporate Governance Council have been applied for the entire financial year ended 30 June 2010. The Company is a small company with limited operations. Accordingly the Board considers that many of the corporate governance guidelines intended to apply to larger companies are not practical for the Company.

Principle 1: Lay Solid Foundations for Management and Oversight

Recommendation 1.1: Companies should establish the functions reserved to the Board and those delegated to senior executives and disclose those functions.

The Board has adopted a Corporate Governance Policy, which defines functions reserved for the Board and those delegated to Management.

The Board is accountable to shareholders for the performance of the Company and has overall responsibility for its operations.

The Board's primary objective is to protect and enhance shareholder value within a defined, informed structure which protects the rights and interests of shareholders and other stakeholders by ensuring that the Company and its controlled entities are properly managed. The Board, together with senior management, is responsible to shareholders and other stakeholders for the Company's total business performance.

Management of the business of the Company is conducted by the Chief Executive Officer as designated by the Board and by officers and employees to whom the management function is delegated by the Chief Executive Officer.

Recommendation 1.2: Companies should disclose the process for evaluating the performance of senior executives.

The Chief Executive Officer reviews the performance of senior executives and consultants.

Recommendation 1.3 Companies should provide the information indicated in the Guide to reporting on Principle 1.

The Principle 1 information required by the Guide is disclosed above.

Principle 2: Structure the Board to Add Value

Recommendation 2.1: A majority of the board should be independent directors.

At present, the Board of four Directors are each non-executive, including the Chairman.

There is not a majority of independent directors. The Board considers that the Board's structure is still appropriate to the Company's size. Each Director-independent or not- brings an independent judgement to bear on Board decisions.

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Directors' report (continued)

Corporate Governance (continued)

Directors may obtain independent professional advice at the Company's expense, subject to prior agreement and direction by the Board, on matters arising in the course of Company business. Directors also have access to senior Company managers and Company documents at all times.

Recommendation 2.2: The chairperson should be an independent director.

The Chairman is a non-executive Director, but not independent.

Recommendation 2.3: The roles of chairperson and chief executive officer should not be exercised by the same individual.

The Chairman and Chief Executive Officer are different individuals.

Recommendation 2.4: The board should establish a nomination committee.

The size of the Company does not warrant the formation of a Nomination or Remuneration Committee at this time. Appointments have been considered by the full Board.

Recommendation 2.5: Companies should disclose the process for evaluating the performance of the board, its committees and individual directors.

The Board reviews the performance of the Chief Executive Officer.

Details of Directors' qualifications, experience, term of office and special responsibilities are in the Directors Report included in this Annual Report.

Potential nominations to the Board are assessed by the full Board. The Board may appoint a nominations or remuneration committee.

The Board undertakes self assessment of its collective performance. Individual performance is evaluated by the full Board.

Recommendation 2.6: Companies should provide the information indicated in the Guide to reporting on Principle 2.

The Principle 2 information required by the Guide is disclosed above.

Principle 3: Promote ethical and responsible decision making

Recommendation 3.1: Companies should establish a code of conduct and disclose the code or a summary of the code as to:

- *The practices necessary to maintain confidence in the company's integrity*
- *The practices necessary to take into account their legal obligations and the reasonable expectations of their stakeholders*
- *The responsibility and accountability of individuals for reporting and investigating reports of unethical practices.*

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Directors' report (continued)

Corporate Governance (continued)

The Company does not have a formal code of conduct, reflecting the Company's small size and close interaction of the small number of individuals throughout the organisation.

Recommendation 3.2: Companies should establish a policy concerning trading in company securities by directors, senior executives and employees, and disclose the policy or a summary of that policy.

The directors, officers, consultants and employees of the Company are aware of their legal responsibilities and adhere to the following policy:

1. 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:
 - (i) 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
 - (ii) Whilst in possession of price sensitive information.
2. 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.

Recommendation 3.3: Companies should provide the information indicated in the Guide to reporting on Principle 3.

The Principle 3 information required by the Guide is disclosed above.

Principle 4: Safeguard integrity in financial reporting

Recommendation 4.1: The board should establish an audit committee.

The Company has established an audit committee.

Recommendation 4.2: Structure the audit committee so that it consists of:

- *only non-executive directors*
- *a majority of independent directors*
- *an independent chairperson, who is not chairperson of the board*
- *at least three members.*

The Company's Audit Committee comprises the full Board. The Chairman of the Audit Committee is also the Chairman of the Board.

This Audit Committee structure is considered to be commercially cost effective, and appropriate to the Company's size and structure.

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Directors' report (continued)

Corporate Governance (continued)

Details of the Audit Committee Member's qualifications, experience, and special responsibilities are in the Directors Report included in this Annual Report.

The Audit Committee meets at least twice a year. The attendees are the Audit Committee Members; Chief Executive Officer; External Auditor and Company Secretary.

Recommendation 4.3: The audit committee should have a formal charter.

The Company does not have a formal audit committee charter, reflecting the Company's small size and close interaction of the small number of individuals throughout the organisation.

The primary role of the Audit Committee is to assist the Board in fulfilling its oversight responsibilities by monitoring and reviewing, on behalf of the Board, the effectiveness of the Company's control environment in the areas of operational risk, legal compliance, regulatory compliance and financial reporting.

Recommendation 4.4: Companies should provide the information indicated in the Guide to reporting on Principle 4.

The Principle 4 information required by the Guide is disclosed above.

Principle 5: Make timely and balanced disclosure

Recommendation 5.1: Companies should establish written policies and procedures designed to ensure compliance with ASX Listing Rule disclosure requirements and to ensure accountability at a senior management level for that compliance and disclose those policies or a summary of those policies.

The Board's policy is that shareholders are informed of all material developments that impact on the Company. Detailed continuous disclosure policy is intended to maintain the market integrity and market efficiency of the Company's shares listed on the ASX. This policy sets out the requirements of management to report to the Chief Executive Officer, any matter that may require disclosure under the Company's continuous disclosure obligations. The Chief Executive Officer is also required to report at each Board meeting on this issue. The continuous disclosure process ensures compliance with the Company's continuous disclosure and reporting obligations, consistent with the ASX Limited Listing Rules, and the Corporations Act 2001.

Recommendation 5.2: Companies should provide the information indicated in the Guide to reporting on Principle 5.

The Principle 5 information required by the Guide is disclosed above.

King Island Scheelite Limited Annual Financial Report 30 June 2010
Directors' report (continued)

Corporate Governance (continued)

Principle 6: Respect the Rights of Shareholders

Recommendation 6.1: Companies should design a communications policy for promoting effective communication with shareholders and encouraging their participation at general meetings and disclose their policy or a summary of that policy.

The Company aims to convey to its shareholders pertinent information in a detailed, regular, factual and timely manner.

The Board ensures that the annual report includes relevant information about the operations of the Company during the year, and changes in the state of affairs of the Company, in addition to the other disclosures required by the Corporations Act 2001.

Information is communicated to shareholders by the Company through:

1. Placement of market announcements on the Company's web-site <http://www.kingislandscheelite.com.au>;
2. The annual and interim financial reports (for those shareholders who have requested a copy);
3. Disclosures to the Australia Securities Exchange;
4. Notices and explanatory memoranda of annual general meetings; and
5. All Shareholders are invited to attend and raise questions at the Annual General Meeting.

All shareholders are welcome to communicate directly with the Company.

All queries will be answered to the maximum extent possible (with consideration given to commercially sensitive information, privacy requirements and the Company's disclosure obligations) and in a timely fashion.

Recommendation 6.2: Companies should provide the information indicated in the Guide to reporting on Principle 6.

The Principle 6 information required by the Guide is disclosed above.

Principle 7: Recognise and Manage Risk

Recommendation 7.1: Companies should establish policies for the oversight and management of material business risks and disclose a summary of those policies.

The Audit Committee has the responsibility to establish policies on the system of internal control and management of financial and business risks.

Risk matters are raised with the Audit Committee, which in turn manages these matters raised and reports to the full Board.

Recommendation 7.2: The board should require management to design and implement the risk management and internal control system to manage the company's material business risks and report to it on whether those risks are being managed effectively. The board should disclose that management has reported to it as to the effectiveness of the company's management of its material business risks.

King Island Scheelite Limited Annual Financial Report 30 June 2010
Directors' report (continued)

Corporate Governance (continued)

The Chief Executive Officer manages the Company's material business risks and reports to the Audit Committee.

Materiality thresholds

The Company regularly reviews procedures, and ensures timely identification of disclosure material and materiality thresholds.

Materiality judgments can only be made on a case by case basis, when all the facts are available. The Board would consider an amount which is:

1. Equal to or greater than 10 per cent of the appropriate base amount as material, unless there is evidence or convincing argument to the contrary; and
2. Equal to or less than 5 per cent of the appropriate base amount not to be material unless there is evidence, or convincing argument, to the contrary.

Recommendation 7.3: The board should disclose whether it has received assurance from the chief executive officer (or equivalent) and the chief financial officer (or equivalent) that the declaration provided in accordance with section 295A of the Corporations Act is founded on a sound system of risk management and internal control and that the system is operating effectively in all material respects in relation to financial reporting risks.

The Company requires that these statements are certified by the Chief Executive and Chief Financial Officers.

Recommendation 7.4: Companies should provide the information indicated in the Guide to reporting on Principle 7.

The Principle 7 information required by the Guide is disclosed above.

Principle 8: Remunerate Fairly and Responsibly

Recommendation 8.1: The board should establish a remuneration committee.

The full Board would act as a Remuneration Committee, as required.

Recommendation 8.2: Companies should clearly distinguish the structure of non-executive directors' remuneration from that of executive directors and senior executives.

Non-executive Directors' fees are determined by the Board within the aggregate amount approved by shareholders.

Any structure for equity based executive remuneration must be commercially cost effective, and appropriate to the Company's size and structure.

The Board has regard in the performance of the duties set out herein to any published guidelines or recommendations regarding the remuneration of directors of listed companies and formation and

King Island Scheelite Limited Annual Financial Report 30 June 2010
Directors' report (continued)

Corporate Governance (continued)

operation of share option schemes which the Board considers relevant or appropriate.

Fees for non-executive directors reflect the demands on and responsibilities of our Directors. Non-executive Directors are remunerated by way of base fees and statutory superannuation contributions and do not participate in schemes designed for the remuneration of executives. Non-executive directors do not receive any bonus payments nor are they provided with retirement benefits other than statutory superannuation.

There are no schemes for retirement benefits, other than statutory superannuation, for non-executive directors.

Recommendation 8.3: Companies should provide the information indicated in the Guide to reporting on Principle 8.

The Principle 8 information required by the Guide is disclosed above.

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 59 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

2 September 2010

King Island Scheelite Limited Annual Financial Report 30 June 2010

Statement of Comprehensive Income (single statement approach)

For the year ended 30 June 2010

	Note	2010 \$000	2009 \$000
Revenue		-	-
Cost of sales		-	-
Gross profit		-	-
Employee expenses	3	(669)	(684)
Administrative expenses		(294)	(989)
Depreciation		(10)	(5)
Net loss on sale of property, plant and equipment		-	(403)
Mine rehabilitation benefit		-	-
Results from operating activities		(973)	(2,081)
Financial income – interest		110	158
Financial expense – interest		-	(8)
Net finance income		110	150
Loss before tax		(863)	(1,931)
Income tax benefit	5	284	474
Net loss attributable to members of the parent		(579)	(1,457)
Other comprehensive income		-	-
Income tax on other comprehensive income		-	-
Other comprehensive income for the period, net of income tax		-	-
Total comprehensive income for the period		(579)	(1,457)
		cents	cents
Basic and diluted loss per share attributable to ordinary equity holders	6	(0.9)	(2.5)

The Statement of Comprehensive Income is to be read in conjunction with the notes to the consolidated financial statements set out on pages 26 to 57.

King Island Scheelite Limited Annual Financial Report 30 June 2010

Statement of Changes in Equity

For the year ended 30 June 2010

Consolidated	Issued Capital \$000	Accumulated losses \$000	Share Option reserve \$000	Total equity \$000
Balance at 1 July 2008	39,226	(12,611)	170	26,785
Net loss for the year	-	(1,457)	-	(1,457)
Options granted to employee	-	-	67	67
Share issue	4,729	-	-	4,729
Balance at 30 June 2009	43,955	(14,068)	237	30,124
Balance at 1 July 2009	43,955	(14,068)	237	30,124
Net loss for the year	-	(579)	-	(579)
Options granted to employee	-	-	90	90
Balance at 30 June 2010	43,955	(14,647)	327	29,635

The Statement of Changes in Equity should be read in conjunction with the notes to the consolidated financial statements set out on pages 26 to 57.

King Island Scheelite Limited Annual Financial Report 30 June 2010

Statement of Financial Position

As at 30 June 2010

	Note	2010 \$000	2009 \$000
Current assets			
Cash and cash equivalents	7	2,621	3,745
Trade and other receivables	8	38	83
Inventories	9	28	28
Total current assets		<u>2,687</u>	<u>3,856</u>
Non-current assets			
Property, plant and equipment	13	485	494
Intangible assets	14	30,209	28,980
Deferred tax assets	12	-	-
Total non-current assets		<u>30,694</u>	<u>29,474</u>
Total assets		<u>33,381</u>	<u>33,330</u>
Current liabilities			
Trade and other payables	15	51	337
Provisions	16	9	7
Total current liabilities		<u>60</u>	<u>344</u>
Non-current liabilities			
Loans and borrowings	17	1,687	604
Deferred tax liabilities	12	1,999	2,258
Total non-current liabilities		<u>3,686</u>	<u>2,862</u>
Total liabilities		<u>3,746</u>	<u>3,206</u>
Net assets		<u>29,635</u>	<u>30,124</u>
Equity			
Issued capital	18	43,955	43,955
Reserves	18	327	237
Accumulated losses		(14,647)	(14,068)
Total equity		<u>29,635</u>	<u>30,124</u>

The Statement of Financial Position should be read in conjunction with the notes to the consolidated financial statements set out on pages 26 to 57.

King Island Scheelite Limited Annual Financial Report 30 June 2010

Statement of cash flows

For the year ended 30 June 2010

	Note	2010 \$000	2009 \$000
Cash flows used in operating activities			
Cash receipts from Dolphin Joint Venture		-	-
Cash paid to suppliers and employees		(1,108)	(1,549)
Cash used in operations		(1,108)	(1,549)
Research and development expenditure tax rebate		15	-
Interest received		110	158
Net cash used in operating activities	22	(983)	(1,391)
Cash flows used in investing activities			
Payment for property, plant and equipment		(1)	(84)
Security deposit (payment) / refund		-	(7)
Purchase of industrial property		(99)	(51)
Purchase of exploration and evaluation assets		(1,021)	(1,090)
Net cash used in investing activities		(1,121)	(1,232)
Cash flows from financing activities			
Proceeds from the issue of share capital		-	4,729
Proceeds from borrowings		980	597
Net cash generated from financing activities		980	5,326
Net (decrease) / increase in cash and cash equivalents		(1,124)	2,703
Cash and cash equivalents at 1 July		3,745	1,042
Cash and cash equivalents at 30 June	7	2,621	3,745

The Statement of Cash Flows should be read in conjunction with the notes to the consolidated financial statements set out on pages 26 to 57.

King Island Scheelite Limited Annual Financial Report 30 June 2010

Parent Entity Disclosures

As at, and throughout, the financial year ending 30 June 2010 the parent company of the Group was King Island Scheelite Limited.

	The Company	
	2010	2009
	\$000	\$000
Results of the parent entity		
Loss for the period	(670)	(1,788)
Other comprehensive income	-	-
Total comprehensive income for the period	<u>(670)</u>	<u>(1,788)</u>
Financial position of parent entity at year end		
Current assets	2,653	3,741
Non-current assets	28,353	27,911
Total assets	<u>31,006</u>	<u>31,652</u>
Current liabilities	2,127	2,193
Total liabilities	<u>2,127</u>	<u>2,193</u>
Net Assets	<u>28,879</u>	<u>29,459</u>
Total equity of the parent entity comprising of:		
Share capital	43,955	43,955
Share Option Reserve	327	237
Accumulated Losses	(15,403)	(14,733)
Total Equity	<u>28,879</u>	<u>29,459</u>

King Island Scheelite Limited Annual Financial Report 30 June 2010

Parent Entity Disclosures (continued)

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

	The Company	
	2010 \$000	2009 \$000
Property		
Contracted but not yet provided for and payable:		
Within one year	50	50
One year later and no later than five years	50	-
Later than five years	-	50
	-	-
Plant and equipment		
Contracted but not yet provided for and payable:		
Within one year	-	-
One year later and no later than five years	-	-
Later than five years	-	-
	-	-

Parent entity guarantees in respect of debt of its subsidiary

The parent entity has entered into a guarantee with the effect that the Company guarantees and indemnifies the debt payable to Hunan Nonferrous Metals Corporation Ltd by the Company's subsidiary Australian Tungsten Pty Ltd.

Further details of the loan subject to the guarantee are disclosed in Note 17.

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King Island Scheelite Limited Annual Financial Report 30 June 2010
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 2010 comprise the Company and its subsidiaries (together referred to as the "Consolidated Entity" or "Group") and the Consolidated Entity's interest in associates.

On 2 September 2010, 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 complies 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 (AUD), 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, US dollar (USD)/AUD exchange rate, production costs and AUD selling price of WO₃(Wolframite Ore Tungsten Trioxide).

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 2010
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 financial report for the purposes of the Australian Accounting Standards.

(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 arrangements 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 comprehensive income from the date joint control commenced until the date joint control ceases. The Consolidated Entity's share of the joint venture arrangements 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 2010
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 statement of comprehensive income as an expense as incurred.

Depreciation

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

	2010	2009
▪ plant and equipment	2.5 to 7 years	2.5 to 7 years

(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 statement of comprehensive income 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 statement of comprehensive income.

Change in accounting policy

In respect of borrowing costs relating to qualifying assets for which the commencement date for capitalisation is on or after 1 July 2009, the Group capitalises borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset as part of the cost of that asset. Previously the Group immediately recognised all borrowing costs as an expense. This change in accounting policy was due to the adoption of AASB 123 *Borrowing Costs* (2007) in accordance with the transitional provisions of that standard, comparative figures have not been restated. The change in accounting policy had no material impact on earnings per share.

For the year ended 30 June 2010, the Group has capitalised borrowing costs with respect to the intangible asset arising from exploration and evaluation expenditure.

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 (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.

(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 statement of comprehensive income unless the asset has been re-valued previously in which case the impairment loss is recognised as a reversal to the extent of the previous revaluation with any excess recognised through the statement of comprehensive income.

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

Calculation of recoverable amount

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

Reversals of impairment

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

(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.

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(j) Earnings per share (continued)

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

(k) Employee benefits

Share-based payment transactions

The grant date fair value of options granted to an employee is recognised as an employee expense, with a corresponding increase in equity, over the period that the employee becomes unconditionally entitled to the options. The amount recognised as an expense is adjusted to reflect the actual number of share options for which the related service and non market vesting conditions are met.

Wages, salaries, and annual leave

Liabilities for employee benefits such as 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 the reporting date.

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 statement of comprehensive income 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 statement of financial position 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 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.

(l) Provisions (continued)

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 the 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 statement of comprehensive income as it occurs.

If the change in the liability results in a decrease in the liability that exceeds the carrying amount of the asset, the asset is written-down to nil and the excess is recognised immediately in the statement of comprehensive income. 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 statement of comprehensive income 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 statement of comprehensive income as incurred. Changes in the liability are charged to the statement of comprehensive income 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 payables are recognised initially at fair value plus directly attributable transaction costs subsequent to initial recognition. These transactions are measured at amortised cost using the effective interest rate method.

King Island Scheelite Limited Annual Financial Report 30 June 2010
Notes to the consolidated financial statements (continued)

(n) Financing Income and Expenses

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

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

(o) Income tax

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

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

Deferred tax is 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 reporting date.

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

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

Tax consolidation

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

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

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

King Island Scheelite Limited Annual Financial Report 30 June 2010
Notes to the consolidated financial statements (continued)

(o) Income tax (continued)

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 statement of financial position.

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

(q) Derivatives

The financial entity does not hold any derivative financial instruments.

(r) Revenue

Revenue from the sale of goods is recognised in the statement of comprehensive income 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

The following standards, amendments to standards and interpretations have been identified as those which may impact the entity in the period of initial application. They are available for early adoption at 30 June 2010, but have not been applied in preparing this financial report.

AASB 124 *Related Party Disclosures* (revised December 2009) simplifies and clarifies the intended meaning of the definition of a related party and provides a partial exemption from the disclosure requirements for government-related entities. The amendments, which will become mandatory for Group's 30 June 2012 financial statements, are not expected to have any impact on the financial statements.

King Island Scheelite Limited Annual Financial Report 30 June 2010
Notes to the consolidated financial statements (continued)

(s) New Standards/Interpretations not yet adopted (continued)

AASB 2009-5 *Further amendments to Australian Accounting Standards arising from the Annual Improvements Process* affect various AASBs resulting in minor changes for presentation, disclosure, recognition and measurement purposes. The amendments, which become mandatory for the Group's 30 June 2011 financial statements, are not expected to have a significant impact on the financial statements.

2 Segment reporting

Business and geographical segments

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

3 Employee expenses

	2010	2009
	\$000	\$000
Salaries and fees	538	599
Superannuation	39	50
Option expense	90	67
(Decrease) / Increase in annual leave provision	2	(32)
	<u>669</u>	<u>684</u>

4 Auditors' Remuneration

	\$	\$
Auditors of the Company <i>KPMG Australia</i> :		
Audit and review of financial reports	53,000	52,500
	<u>53,000</u>	<u>52,500</u>

5 Income tax

	\$000	\$000
Numerical reconciliation between tax benefit and pre-tax net loss		
Loss before tax	(863)	(1,931)
Prima facie Income tax benefit using the domestic corporation tax rate of 30%	259	580
Loss on sale of fixed asset	-	(121)
(Decrease) / Increase in income tax benefit due to:		
Research and development expenditure tax rebate	25	15
Income tax benefit on pre-tax net loss	<u>284</u>	<u>474</u>

Recognised in the Statement of Comprehensive Income

Current year benefit	25	15
Deferred tax benefit/(expense)	259	459
	<u>284</u>	<u>474</u>

King Island Scheelite Limited Annual Financial Report 30 June 2010
Notes to the consolidated financial statements (continued)

5 Income tax (continued)

Unrecognised deferred tax assets

Deferred tax assets have not been recognised in respect of the following items:

	2010 \$000	2009 \$000
Capital tax losses	<u>1,431</u>	<u>1,431</u>

The tax losses do not expire under current legislation. Deferred tax assets have not been recognised in respect of this item because it is not probable that future tax profit will be available against which the Group the benefits there from.

6 Loss per share

Basic and diluted loss per share

The calculation of basic and diluted loss per share at 30 June 2010 was based on the loss attributable to ordinary shareholders of \$579,000 (2009: \$1,457,000) and a weighted average number of ordinary shares outstanding during the year ended 30 June 2010 of 62,373,758 (2009: 57,350,407), calculated as follows:

Loss attributable to ordinary shareholders

	2010 \$000	2009 \$000
Loss for the year	<u>(579)</u>	<u>(1,457)</u>

Weighted average number of ordinary shares

	Number of shares (thousands)	
	2010	2009
Issued ordinary shares at 1 July	62,374	40,015
Effect of shares issued 16 September 2008	-	3,499
Effect of shares issued 17 September 2008	-	12,537
Effect of shares issued 2 October 2008	-	675
Effect of shares issued 14 November 2008	-	624
Weighted average number of ordinary shares used in calculating basic and diluted loss per share	<u>62,374</u>	<u>57,350</u>

As there are losses for the current and previous years attributable to ordinary shareholders, options issued by the Company (Note 23) are not dilutive.

King Island Scheelite Limited Annual Financial Report 30 June 2010
Notes to the consolidated financial statements (continued)

7 Cash and cash equivalents

	2010 \$000	2009 \$000
Bank balances	45	189
Call deposits	2,576	3,556
Cash and cash equivalents in the statements of cash flows	<u>2,621</u>	<u>3,745</u>

8 Other current receivables

Other receivables	35	76
Prepayments	3	7
	<u>38</u>	<u>83</u>

9 Inventories

Finished goods	<u>28</u>	<u>28</u>
----------------	-----------	-----------

10 Interests in Joint Ventures

	Ownership	
	2010 %	2009 %
Dolphin Joint Venture	50.0%	50.0%
Balfour Joint Venture	<u>35.0%</u>	<u>35.0%</u>

Dolphin Joint Venture (DJV)

This unincorporated joint venture was created to develop the King Island scheelite mine. Australian Tungsten Pty Ltd (ATPL) (a wholly owned subsidiary of the Company) and HNC (Australia) Scheelite Pty Ltd (HAS) (a wholly owned subsidiary of Hunan Non Ferrous Metals Corporation (HNC)) hold equal ownership of the DJV. During the year ended 30 June 2010, China Minmetals Corporation acquired control of HNC.

A wholly owned subsidiary of the Company, Scheelite Management Pty Ltd, manages the DJV on behalf of the partners.

DJV funding is provided as follows:

1. The Company's 50% share of development costs is financed by a loan from HNC to ATPL (see Note 17), and then invested by ATPL into the DJV; and
2. The remaining 50% is from equity invested directly into the DJV by HAS.

There is a cross charge between ATPL and HAS. Each DJV participant (ATPL and HAS) jointly and severally charged all its DJV interest for the benefit of the other DJV participant as security for the due and punctual performance, observance and fulfilment of all its DJV obligations, collateral liabilities and payment in full of all secured money. The maximum prospective liability secured by this cross charge totals \$200 million.

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King Island Scheelite Limited Annual Financial Report 30 June 2010
Notes to the consolidated financial statements (continued)

10 Interests in Joint Ventures (continued)

Balfour Joint Venture (BJV)

This unincorporated joint venture with Pleiades Resources Pty Ltd was created to explore mineralisation within the Balfour Tenements in north-west Tasmania.

The Company undertook a drilling programme during the year recording tin-tungsten intercepts at Specimen Hill and copper-gold at Roaring 41 South.

On completion of this programme, the Company interest will increase from 35% to 70%. This programme and any future work are being managed by the Company.

There is a cross charge between the Company and Pleiades. Each BJV participant (Company and Pleiades) jointly and severally charged all its BJV interest for the benefit of the other BJV participant as security for the due and punctual performance, observance and fulfilment of all its BJV obligations, collateral liabilities and payment in full of all secured money. The maximum prospective liability secured by this cross charge totals \$100 million.

The Company's Director Dr Morrith is also a director and shareholder of Pleiades.

11 Equity Accounted Investee

GTN Copper Technology Pty Ltd

Name	Principal activities	Country of incorporation	Reporting date	Ownership interest	
				2010	2009
GTN Copper Technology Pty Ltd	Evaluation of copper projects using Intec technology	Australia	30 June	36.3%	36.3%

The contribution by GTN Copper Technology Pty Ltd to the Consolidated Entity's operating result for the financial year ended 30 June 2010 was \$Nil (2009 \$Nil). There were no assets and liabilities employed in the joint venture included in the assets and liabilities of the Consolidated Entity at 30 June 2010 (2009 \$Nil).

King Island Scheelite Limited Annual Financial Report 30 June 2010
Notes to the consolidated financial statements (continued)

12 Deferred tax assets and liabilities

Recognised deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following:

	Assets		Liabilities		Net	
	2010 \$000	2009 \$000	2010 \$000	2009 \$000	2010 \$000	2009 \$000
Consolidated						
Intangible assets	-	-	8,425	7,763	8,425	7,763
Provisions	(3)	(2)	-	-	(3)	(2)
Tax losses	(6,423)	(5,503)	-	-	(6,423)	(5,503)
Tax (assets)/liabilities	(6,426)	(5,505)	8,425	7,763	1,999	2,258
Set off of tax	6,426	5,505	(6,426)	(5,505)	-	-
Net tax (assets)/liabilities	-	-	1,999	2,258	1,999	2,258

13 Property, Plant and Equipment

	Land \$000	Plant and equipment \$000	Total \$000
Cost			
Balance at 1 July 2008	807	18	825
Additions	-	84	84
Disposals	(404)	-	(404)
Balance at 30 June 2009	403	102	505
Balance at 1 July 2009	403	102	505
Additions	-	1	1
Balance at 30 June 2010	403	103	506
Depreciation			
Balance at 1 July 2008	-	(6)	(6)
Disposals	-	-	-
Depreciation change for the year	-	(5)	(5)
Balance at 30 June 2009	-	(11)	(11)
Balance at 1 July 2009	-	(11)	(11)
Disposals	-	-	-
Depreciation change for the year	-	(10)	(10)
Balance at 30 June 2010	-	(21)	(21)
Carrying amounts			
At 1 July 2008	807	12	819
At 30 June 2009	403	91	494
At 1 July 2009	403	91	494
At 30 June 2010	403	82	485

King Island Scheelite Limited Annual Financial Report 30 June 2010
Notes to the consolidated financial statements (continued)

14 Intangible assets

	Exploration and evaluation	Other	Mining Rights	Deposit	Total
	\$000	\$000	\$000	\$000	\$000
Cost					
Balance at 1 July 2008	7,999	-	19,839	-	27,838
Additions	1,091	51	-	-	1,142
Balance at 30 June 2009	9,090	51	19,839	-	28,980
Balance at 1 July 2009	9,090	51	19,839	-	28,980
Additions	1,122	100	-	7	1,229
Balance at 30 June 2010	10,212	151	19,839	7	30,209

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.

15 Trade and other payables

	2010 \$000	2009 \$000
Current		
Trade payables	10	128
Other trade payables and accrued expenses	41	209
	51	337

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King Island Scheelite Limited Annual Financial Report 30 June 2010
Notes to the consolidated financial statements (continued)

16 Provisions-current

	Employee Entitlement for Annual Leave \$000	Total \$000
Cost		
Balance at 30 June 2008	39	39
Provision used during the year	(32)	(32)
Balance at 30 June 2009	7	7
Provision made during the year	2	2
Balance at 30 June 2010	9	9

17 Loans and Borrowings – non current

	Currency	Interest Rate per annum	Year of Maturity	2010		2009	
				Face Value \$000	Carrying Amount \$000	Face Value \$000	Carrying Amount \$000
Loan from Hunan Nonferrous Metals Corporation Ltd	AUD	8% fixed	2019				
Cash calls				1,578	1,578	597	597
Interest payable				109	109	7	7
				1,687	1,687	604	604

Summary of loan terms

Borrower

Australian Tungsten Pty Ltd (ATPL) (see Note 21)

Lender

Hunan Nonferrous Metals Corporation Ltd (HNC)

Commencement Date

6 February 2009

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King Island Scheelite Limited Annual Financial Report 30 June 2010
Notes to the consolidated financial statements (continued)

17 Loans and Borrowings – non-current (continued)

Facility Rate

Means on any day, 8% per annum.

Facility Limit

\$63,250,000

Borrower's Expenses

Means the Borrower's expenses relating to the Dolphin Joint Venture (see Note 10) that have been actually paid during the relevant period including cash calls and any tax to the extent it relates to the Dolphin Joint Venture but excluding:

1. Any amount paid under the loan; and
2. GST on those expenses to the extent that an input tax credit can be claimed.

Borrower's Receipts

Means the proceeds that have been actually received during the relevant period by the Borrower from the sale of the Borrower's Participating Share of product.

Participating Share

Means:

1. ATPL 50%; and
2. HNC (Australia) Scheelite Pty Ltd (a wholly owned subsidiary of HNC) 50%.

Free Cashflow

Means the amount calculated by deducting the Borrower's Expenses from the Borrower's Receipts.

Repayment Amount

Means at any time where the aggregate of all money owing:

1. Is less than or equal to \$55,000,000, means 60% from free cash flow; and
2. Exceeds \$55,000,000, means 90% from free cash flow.

Interest Period

Each interest period is of approximately six calendar months' duration. The first interest period commences on the Commencement Date and the last interest period is adjusted to end on the termination date, when money owing is repaid in full.

Interest and Principal Repayment

Borrower must repay principal and pay any interest to the Lender on the last day of each Interest Period or the following business day if such last day is not a business day.

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King Island Scheelite Limited Annual Financial Report 30 June 2010
Notes to the consolidated financial statements (continued)

17 Loans and Borrowings – non-current (continued)

The amount to be repaid for each Interest Period is equivalent to the Repayment Amount for that Interest Period on the basis that such amount is applied to pay interest first and then to repay principal.

If any amount that is due and payable is not paid, interest will accrue on each day on such amount at the rate of 10% per annum. The Borrower must pay any such interest on demand. That interest accrues before and after any judgment.

Interest Capitalisation

If for any Interest Period, the Repayment Amount is insufficient to pay all of the interest calculated for that Interest Period, the amount of interest that is unpaid is capitalised on the last day of that Interest Period.

Any interest capitalised is payable by the Borrower at the end of the subsequent Interest Period and bears interest at the Facility Rate on and from the date of its capitalisation.

Security

The loan is secured in favour of loan from HNC to ATPL by the following granted to HNC:

1. Guarantee granted by King Island Scheelite Limited for a period of 10 years after the last loan re-payment, unless agreed to be earlier by HNC acting in good faith;
2. Share mortgage over all the issued shares in Australian Tungsten Pty Ltd, and any new rights in those shares, held by King Island Scheelite Limited; and
3. A fixed charge over certain assets granted by ATPL (including all Dolphin Joint Venture tenements, all real and leasehold property, unpaid capital, environmental authorities, cash calls, plant and equipment, insurance policies, mining information, mining rights, any joint venture interest, intellectual property and goodwill) and then a floating charge over all remaining ATPL assets. The maximum prospective liability secured by this charge totals \$200 million.

Loan Expiry

ATPL must repay all of the loan money owing on the date which is the earlier of:

1. The date on which ATPL disposes of its interest in the Dolphin Joint Venture; and
2. Ten years after the Commencement Date (or such other date agreed in writing by the parties).

King Island Scheelite Limited Annual Financial Report 30 June 2010
Notes to the consolidated financial statements (continued)

18 Capital and reserves

Share capital

	2010	2009
	Number of shares	Number of shares
Ordinary shares, fully paid		
On issue at 1 July	62,373,758	40,015,001
Shares issued 16 September 2008	-	4,450,000
Shares issued 17 September 2008 on conversion of Performance Shares	-	16,000,000
Shares issued 2 October 2008	-	908,757
Shares issued 14 November 2008	-	1,000,000
On issue at 30 June	<u>62,373,758</u>	<u>62,373,758</u>
First Tranche Closing Performance Shares, fully paid		
On issue at 1 July	-	8,000,000
Converted into fully paid ordinary shares 17 September 2008	-	(8,000,000)
On issue at 30 June	<u>-</u>	<u>-</u>
Second tranche Closing Performance Shares, fully paid		
On issue at 1 July	-	8,000,000
Converted into fully paid ordinary shares 17 September 2008	-	(8,000,000)
On issue at 30 June	<u>-</u>	<u>-</u>

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King Island Scheelite Limited Annual Financial Report 30 June 2010
Notes to the consolidated financial statements (continued)

18 Capital and reserves (continued)

	2010 \$000	2009 \$000
Ordinary shares, fully paid		
Balance at beginning of year	43,955	29,306
16,000,000 ordinary fully paid shares issued on conversion of Performance Shares	-	9,920
4,450,000 ordinary fully paid shares issued for cash	-	4,450
908,757 ordinary fully paid shares issued for cash	-	279
Balance at end of year	<u>43,955</u>	<u>43,955</u>
First Tranche Closing Performance Shares, fully paid		
Balance at beginning of year	-	4,960
8,000,000 First Tranche Closing Performance Shares converted into fully paid ordinary shares	-	(4,960)
Balance at end of year	<u>-</u>	<u>-</u>
Second Tranche Closing Performance Shares, fully paid		
Balance at beginning of year	-	4,960
8,000,000 Second Tranche Closing Performance Shares converted into fully paid ordinary shares	-	(4,960)
Balance at end of year	<u>-</u>	<u>-</u>
Total issued capital at end of year	<u><u>43,955</u></u>	<u><u>43,955</u></u>

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

No dividends have been declared or paid by the Company during or since the end of the financial year. Holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at shareholders' meetings.

Share Based Payment Reserve

	Note	2010 \$000	2009 \$000
Balance at 1 July		237	170
Share based payments	3	90	67
Balance at 30 June		<u><u>327</u></u>	<u><u>237</u></u>

King Island Scheelite Limited Annual Financial Report 30 June 2010
Notes to the consolidated financial statements (continued)

19 Financial Instruments

Effective interest rates and repricing analysis

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

Consolidated	Effective interest rate %	Total \$000	6 months or less \$000	6-12 months \$000	1-2 years \$000	2-5 years \$000	More than 5 years \$000
2010							
Cash and cash equivalents	4.55	2,621	2,621	-	-	-	-
Loan payable	8.0	1,687	-	-	-	-	1,687
2009							
Cash and cash equivalents	6.6	3,745	3,745	-	-	-	-
Loan payable	8.0	604	-	-	-	-	604

Fair values

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

	Note	Carrying amount 2010 \$000	Fair value 2010 \$000	Carrying amount 2009 \$000	Fair value 2009 \$000
Trade and other receivables	8	38	38	83	83
Cash and cash equivalents	7	2,621	2,621	3,745	3,745
Trade and other payables	15	(51)	(51)	(337)	(337)
Loan payable		(1,687)	(1,687)	(604)	(604)
		921	921	2,887	2,887

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King Island Scheelite Limited Annual Financial Report 30 June 2010
Notes to the consolidated financial statements (continued)

20 Lease and exploration expenditure commitments

	2010 \$000	2009 \$000
Non-cancellable operating leases		
Contracted but not provided for and payable:		
Within one year	57	40
One year or later and not later than five years	55	75
Later than five years	-	-
	112	115

The 2010 non-cancellable operating leases are for the Sydney and Grassy offices, together with leases on the office photocopier and telephone systems. The lessee in each case is Scheelite Management Pty Ltd as manager of the Dolphin Joint Venture (DJV). The 2010 amounts are a 50% share of total lease commitments on Grassy leases and 65% of total lease commitments on Sydney leases, the latter reflecting the office is shared between the Company and DJV in the first instance.

Each of the office leases is for a three year term expiring 30 April 2012, with an option to renew for a further three years.

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:

	2010 \$000	2009 \$000
Within one year	125	30
One year or later and not later than five years	-	-
Later than five years	-	-
	125	30

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King Island Scheelite Limited Annual Financial Report 30 June 2010
Notes to the consolidated financial statements (continued)

21 Consolidated entities

	Country of incorporation	Ownership interest	
		2010 %	2009 %
Parent entity			
King Island Scheelite Limited	Australia		
Subsidiaries			
Scheelite Management Pty Ltd	Australia	100	100
GTN Tanzania Pty Ltd	Tanzania	100	100
GTN Operations Pty Ltd	Tanzania	65	65
Australian Tungsten Pty Ltd	Australia	100	100
Balfour Management Pty Ltd	Australia	100	-
Balfour Minerals Pty Ltd	Australia	100	-

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

22 Reconciliation of cash flows from operating activities

	2010 \$000	2009 \$000
Cash flows from operating activities		
Net loss attributable to members of the parent	(579)	(1,457)
Adjustments for:		
Loss on sale of fixed asset	-	404
Depreciation and impairment	10	5
Interest capitalised	-	8
Employee options granted and expensed	90	68
Operating loss before changes in working capital and provisions	(479)	(972)
Decrease / (Increase) in receivables	38	(7)
(Decrease)/ Increase / in payables	(304)	91
Increase / (Decrease) in provisions	22	(43)
Decrease in deferred tax liability	(259)	(460)
Net cash used in operating activities	(982)	(1,391)

King Island Scheelite Limited Annual Financial Report 30 June 2010
Notes to the consolidated financial statements (continued)

23 Share-based payments

The following options were granted on 21 January 2009 to the Chief Executive Officer:

- (a) 1,000,000 options (Tranche 1 Options) vesting on 1 January 2010, after continuous employment of one year and for an Exercise Price of A\$ 25 cents each;
- (b) 1,500,000 options (Tranche 2 Options) vesting on 1 January 2011, after continuous employment of two years and for an Exercise Price of A\$ 50 cents each ; and
- (c) 2,000,000 options (Tranche 3 Options) vesting on 1 January 2012 and after continuous employment of three years and for an Exercise Price of A\$1.00 each.

Each Option provides the right for the option holder to acquire one fully paid Share upon payment of each Exercise Price for each Share. The Expiry Date of all these Options is 31 December 2013.

Employee options expenses for the year ended 30 June 2010 totalled \$90,000 (2009 \$67,000) and this expense was determined by measuring the fair value of services received based on the fair value of share options granted. This fair value was measured using a Black Scholes model and the following inputs:

	Tranche 1 Options	Tranche 2 Options	Tranche 3 Options
Fair Value at grant date	9 cents	6 cents	-
Share price	15 cents	15 cents	15 cents
Exercise Price	25 cents	50 cents	\$1.00
Expected volatility (weighted average volatility)	103.1%	103.1%	103.1%
Option life	4 years	3 years	2 years
Expected dividends	-	-	-
Risk-free interest rate (based on government bonds)	3.45%	3.45%	3.45%

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.

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King Island Scheelite Limited Annual Financial Report 30 June 2010
Notes to the consolidated financial statements (continued)

24 Key management personnel disclosures (continued)

Compensation for Key Management Personnel

	2010 \$	2009 \$
Salaries and fees	439,749	417,339
Cash bonus	30,000	40,000
Non monetary benefit	2,436	2,436
	<u>472,185</u>	<u>459,775</u>
Post employment superannuation benefits	33,329	40,894
Termination benefit	-	51,543
Share based payment	90,000	67,500
	<u>595,514</u>	<u>619,712</u>

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:

Key Management Person	Securities	Balance of securities at the start of the year or date of appointment, as applicable	Transfer In / (Out)	Balance of securities at the end of the year or date of resignation, as applicable
Year ended 30 June 2010				
Anthony Haggarty	Fully paid ordinary shares	4,036,589	-	4,036,589
Robin Morritt	Fully paid ordinary shares	13,555,000	-	13,555,000
Andrew Plummer	Fully paid ordinary shares	884,146	-	884,146
Simon Bird	Options	4,500,000	-	4,500,000
Year ended 30 June 2009				
Anthony Haggarty	Fully paid ordinary shares	4,036,589	-	4,036,589
Robin Morritt	Fully paid ordinary shares	5,555,000	8,000,000 ⁹	13,555,000
	First tranche closing performance shares	4,000,000	(4,000,000) ⁹	-
	Second tranche closing performance shares	4,000,000	(4,000,000) ⁹	-
Andrew Plummer	Fully paid ordinary shares	884,146	-	884,146
Simon Bird (appointed 1/1/2009)	Options	4,500,000	-	4,500,000

The terms and conditions of the options granted are outlined in Note 23 to the accounts.

⁹ Transfer of Closing Performance Shares. See Note 18.

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King Island Scheelite Limited Annual Financial Report 30 June 2010
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 the reporting date were as follows:

	2010	2009
	\$	\$
Accounts Payable - current		
Robin Morritt	<u>594</u>	<u>-</u>

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, companies associated with Messrs Haggarty and Plummer rendered accounting business consulting services to the Company. These charges were made to the Company on normal terms and conditions and in the ordinary course of business. Following are details of these charges:

	2010	2009
	\$	\$
Office rent and supplies	-	8,500
Consulting fees	<u>26,975</u>	<u>57,328</u>
	<u>26,975</u>	<u>65,828</u>

During the financial year, a company associated with Dr Morritt rendered consulting services costing \$4,600 (2009 \$57,500) to the Company. These charges were made to the Company on normal terms and conditions and in the ordinary course of business.

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King Island Scheelite Limited Annual Financial Report 30 June 2010
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 21), an associate and joint ventures (see Note 10), and with its directors and executive officers (see Note 23).

Other related party transactions

The classes of non-director related parties are:

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

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 the reporting date:

	Note	The Company	
		2010 \$000	2009 \$000
Receivables			
Non Current		3	2
Payables			
Current		2,083	2,083

Partly owned controlled entities

Details of interests in partly owned controlled entities are set out in Note 21.

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26 Financial Risk Management

Overview

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

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

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

Credit Risk

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

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Notes to the consolidated financial statements (continued)

26 Financial Risk Management (continued)

Exposure to credit risk

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

	Note	Carrying Amount	
		2010	2009
		\$000	\$000
Current			
Cash and cash equivalents	7	2,621	3,745
Other receivables	8	35	76
Prepayments	8	3	7

Impairment losses

None of the Group's other receivables are past due (2009: nil).

Liquidity risk

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

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

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

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

Consolidated	Carrying amount	Contractual cash flows	6 mths or less	6-12 mths	1-2 years	2-5 years	More than 5 years
	\$000	\$000	\$000	\$000	\$000	\$000	\$000
30 June 2010							
Trade payables	10	10	10	-	-	-	-
Other trade payables and accrued expenses	41	41	41	-	-	-	-
Loan payable	1,687	1,687	-	-	-	-	1,687
30 June 2009							
Trade payables	128	128	128	-	-	-	-
Other trade payables and accrued expenses	209	209	209	-	-	-	-
Loan payable	604	604	-	-	-	-	604

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Notes to the consolidated financial statements (continued)

26 Financial Risk Management (continued)

Market risk

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

Currency risk

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

Interest rate risk

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

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

Profile

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

	Carrying amount	
	2010	2009
	\$000	\$000
Fixed rate instruments		
Financial assets	-	-
Financial liabilities	(1,687)	(604)
	(1,687)	(604)
Variable rate instruments		
Financial assets	2,621	3,745
	2,621	3,745

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.

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 and Reserves Management

The Group's objectives when managing capital and reserves (see Note 18) are to safeguard the Group's ability to continue as a going concern, so as to maintain a strong capital base sufficient to maintain future exploration and development of its projects. In order to maintain or adjust the capital and reserve structure, the Group may return capital to shareholders, issue new shares or sell assets to reduce debt. The Group's focus has been to raise sufficient funds through equity and debt to fund exploration and evaluation activities. The Group monitors capital on the basis of the gearing ratio.

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 Dolphin Joint Venture (DJV) has a liability to a third party 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 to the third party is \$250,000 (Australian Tungsten Pty Ltd share totals \$125,000). In addition a royalty of 1.5% (Australian Tungsten Pty Ltd share totals 0.75%) of gross revenue is also payable contingent on successful extraction of tungsten ore or concentrate.

Adjoining Land

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

The initial 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 an additional \$100,000 net of GST to the vendor.

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Notes to the consolidated financial statements (continued)

27 Contingencies (continued)

During the year ended 30 June 2009, the Company transferred 50% of this adjoining land to HNC (Australia) Scheelite Pty Ltd for a nominal consideration.

The DJV is still committed to pay the third party vendor an additional \$100,000 (Australian Tungsten Pty Ltd share totals \$50,000) upon the commencement of operations.

King Island Council Land

The DJV has signed a purchase agreement to acquire adjoining land to construct accommodation. During the year ended 30 June 2009, the DJV paid a land deposit totalling \$120,000 (Australian Tungsten Pty Ltd share totals \$60,000) and a further \$480,000 payment is required on the commencement of operations (Australian Tungsten Pty Ltd share totals \$240,000).

Balfour Joint Venture (BJV)

On completion of the BLV's current programme, the Company then has the option to acquire the remaining 30% joint venture interest for a consideration of \$1 million and the grant of a 2.5% royalty of gross sales revenue.

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.

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Directors' Declaration

- 1 In the opinion of the directors of King Island Scheelite Limited (the Company):
 - (a) the financial statements and notes that are contained in pages 20 to 57 and the Remuneration Report in the Directors' report, set out on pages 6 to 12, are in accordance with the Corporations Act 2001, including:
 - (i) giving a true and fair view of the Group's financial position as at 30 June 2010 and of its 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) 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 2010.
- 3 The directors draw attention to Note 1 to the consolidated financial statements, which includes a statement of compliance with International Financial Reporting Standards.

Signed in accordance with a resolution of the directors.



Anthony Haggarty

Director

Sydney

2 September 2010



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 2010 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

Shane O'Connor
Partner

Sydney

2 September 2010

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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 the Group comprising King Island Scheelite Limited (the Company) and the entities it controlled at the year's end or from time to time during the financial year, which comprises the statement of financial position as at 30 June 2010, and statement of comprehensive income, statement of changes in equity and statement of cash flows for the year ended on that date, a summary or description of significant accounting policies and other explanatory notes 1 to 28 and the directors' declaration.

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 Group's financial position and of its 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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Independence

In conducting our audit, we have complied with the independence requirements of the *Corporations Act 2001*.

Auditor's opinion

In our opinion:

- (a) the financial report of the Group is in accordance with the *Corporations Act 2001*, including:
 - (i) giving a true and fair view of the Group's financial position as at 30 June 2010 and of its 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 the directors' report for the year ended 30 June 2010. 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 2010, complies with Section 300A of the *Corporations Act 2001*.

KPMG

Shane O'Connor
Partner

Sydney

2 September 2010

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King Island Scheelite Limited Annual Financial Report 30 June 2010

Shareholder Information

At 23 August 2010 issued capital was 62,373,758 ordinary fully paid shares held by 830 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 23 August 2010.

Rank	Name	Number of Shares	% of Shares
1.	CATHERINE MORRITT	13,555,000	21.73
2.	MRS ROBYN ELIZABETH GIBSON	6,146,001	9.85
3.	MR RICHARD WILLMOT CHADWICK + MRS GWENDA ANN CHADWICK	4,990,962	8.00
4.	HUNAN NONFERROUS METALS CORPORATION LIMITED ¹⁰	4,450,000	7.13
5.	THE GLEN RURAL PTY LTD	3,994,504	6.40
6.	CHRYSLIS INVESTMENTS PTY LTD	3,182,697	5.10
7.	HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED	3,116,800	5.00
8.	ANZ NOMINEES LIMITED <CASH INCOME A/C>	2,165,646	3.47
9.	INVIA CUSTODIAN PTY LIMITED <DAVIES FAMILY A/C>	1,249,250	2.00
10.	SERLETT PTY LTD <DILIGENT SUPER FUND A/C>	962,807	1.54
11.	MR VICTOR JOHN PLUMMER	818,668	1.31
12.	MR ANDREW HENDERSON PLUMMER	744,146	1.19
13.	MR ROBERT SLADE FORBES	716,286	1.15
14.	BUDBERTH PTY LTD <IPSEITY S/F A/C>	612,512	0.98
15.	MR DONALD BOYD	600,000	0.96
16.	HOLTEX PTY LIMITED <BUCKERIDGE S/F A/C>	582,777	0.93
17.	VIEWADE PTY LIMITED <OLIVER SUPER FUND A/C>	474,090	0.76
18.	FORBAR CUSTODIANS LIMITED <FORSYTH BARR LTD-NOMINEE A/C>	420,000	0.67
19.	OZHANSA PTY LIMITED <OZHANZA SUPER FUND A/C>	407,320	0.65
20.	MR ROGER BRIAN MASSY-GREENE	365,267	0.59
Total Top 20 holders of ordinary shares		49,554,733	79.45

Distribution of Holders and Holdings at 31 July 2010

Range	Total holders	Number of Shares	% of Issued Capital
1 - 1,000	332	71,154	0.11
1,001 - 5,000	160	501,233	0.80
5,001 - 10,000	103	831,480	1.33
10,001 - 100,000	187	6,597,636	10.58
100,001 - 9,999,999,999	47	54,372,255	87.17
Rounding			0.01
Total	829	62,373,758	100.00

Unmarketable Parcels at 23 August 2010

Minimum Parcel Size	Number of Holders of Unmarketable Parcels
Minimum parcel at \$ 0.14 per unit	433

¹⁰ China Minmetals Corporation holds a relevant interest in Hunan Nonferrous Metals Corporation Limited.

King Island Scheelite Limited Annual Financial Report 30 June 2010

Shareholder Information (continued)

Substantial Shareholders

Substantial shareholders at 23 August 2010, as disclosed in Substantial Shareholder Notices given to the Company

	Number Of Shares	Proportion Of Issued Shares
Catherine Jeanne Morritt	13,555,000	22.09%
Robyn Elizabeth Gibson	6,146,001	9.8%
Abex Resources Australia Pty Ltd	4,990,962	8%
China Minmetals Corporation	4,450,000	7.1%
The Glen Rural Pty Ltd	4,036,589	6.58%

Unquoted Securities

On 16 January 2009, the Company granted 4,500,000 Options for no consideration to Mr Simon Bird under the King Island Scheelite Limited Employee Share Option Plan. Each Option provides the right for Mr Bird to acquire one fully paid Share upon payment of each Exercise Price for each Share, as follows:

- i) 1,000,000 options (Tranche 1 Options) vesting on 1 January 2010, after continuous employment of one year and for an Exercise Price of A\$ 25 cents each;
- ii) 1,500,000 options (Tranche 2 Options) vesting on 1 January 2011, after continuous employment of two years and for an Exercise Price of A\$ 50 cents each ; and
- iii) 2,000,000 options (Tranche 3 Options) vesting on 1 January 2012 and after continuous employment of three years and for an Exercise Price of A\$1.00 each.

The Expiry Date of all these Options is 31 December 2013.

Mining Tenements

The Company holds the following licences and lease:

	Interest
Retention Licence RL 2/1998 at Grassy, King Island (8 sq kms)	50%
Exploration Licence EL19/2001 at Grassy, King Island (91 sq kms)	50%
Exploration Licence EL16/2002 at Grassy, King Island (18 sq kms)	50%
Mining Lease 1M/2006 at Grassy, King Island (544 hectares)	50%
Exploration Licence EL27/2007 at Balfour Tasmania	35%
Exploration Licence EL40/2007 at Frankland River - Mt Lily - NW / S of Balfour, Tasmania	35%

Securities Exchange Listing

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

King Island Scheelite Limited Annual Financial Report 30 June 2010
Shareholder Information (continued)

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>

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Principal Place of Business

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On-Market Buy Back

There is no on-market buy-back.