King Island Scheelite Limited
ABN 40 004 681 734

and its controlled entities

ANNUAL FINANCIAL REPORT

30 June 2012

King Island Scheelite Limited Annual Financial Report 30 June 2012

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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 (University of NSW), (Appointed 7th April 1998.), has over 25 years of 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 3rd May 2007) and former Non-Executive Director of publicly listed IMX Resources NL (resigned 7th July 2012).

Tony was a Managing Director of the publicly listed company Excel Coal Limited (for the period 3rd May 2004 to 25th 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 24th May 2005.), an exploration geologist with over 30 years of 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, B.S. Mining Eng (Colorado School of Mines), (Appointed 1st March 2006.)

Andy has over 30 years of experience in the investment banking and mining industries. He was most recently an Executive Director of Excel Coal Limited (for the period 8th July 1987 to 10th 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 3rd May 2007), and a Director of XLX Pty Ltd and Chairman of Ranamok Glass Prize Ltd.

Li Li Independent Non-Executive Director, Bachelor of Industrial Automation (Central South University of Technology) EMBA (Hunan University), (Appointed 18th May 2011 and resigned 15th August 2012.)

Mr Li Li graduated from Zhuzhou Metallurgy Industrial School in 1982 and received his bachelor degree in industrial automation from Central South University of Technology in 1989. Mr Li studied economic law at postgraduate level from 1999 to 2001, and also holds an Executive Master of Business Administration for Senior Management from Hunan University.

Mr Li held various positions at Zhuzhou Cemented Carbides Group Co., Ltd from 1982 to 2004 and also served as a member of Party Committee and the Deputy General Manager of Hunan Nonferrous Metals Holding Group Co., Ltd from 2004 to 2005. Mr Li is a member of the Chinese People's Political Consultative Conference of Hunan Province and a director of Hunan Nonferrous Metals Corporation Limited.

Mr Li tendered his resignation as Non-Executive Director of the Company on 15th August 2012.

Fang Wu Alternate Director to Mr Li, LLM Commercial Law (Monash University) Master of Interpreting and Translation (University of Western Sydney) (Appointed 18th May 2011 and ceased 6th March 2012. Re-appointed 21st June 2012 and ceased 15th August 2012.)

Ms Fang Wu joined HNC (Australia) Resources Holding Pty Ltd when the company was established in 2007 and has been working as the Project Coordinator in HNC to assist HNC Management achieve better understanding, efficient communication and decision making regarding the Dolphin Project and other business of the Company.

Ms Wu advised her resignation as Alternate Director to Mr Li on 15th August 2012.

Chen Yao Alternate Director to Mr Li (Appointed 6th March 2012 and ceased 20th June 2012.)

Mr Chen Yao joined HNC (Australia) Resources Holding Pty Ltd in 2009 and worked as an administrator in HNC Australia and its subsidiaries. Across most core aspects of HNC Australia's portfolio, Yao has assisted HNC Australia management in driving and initiating an efficient decision-making environment- achieving better communication and reporting processes.

Chief Executive Officer

Simon Bird B.Compt (University of South Africa), B.Compt (Hons) (University of South Africa), FCPA, FAICD

Mr Bird joined King island Scheelite Limited as Chief Executive Officer in January 2009. He is a Non-Executive Director of ASX listed company Mount Gibson Iron Limited and Chair of their Audit Committee He is also a Non-Executive Director of Metals Finance Limited and Chair of their Audit Committee and a former director of the Board of CPA Australia Limited.

His 30 year professional career in Australia, Africa and Europe includes six years with PricewaterhouseCoopers and time in the resources, financial services, property, infrastructure and agricultural sectors. Time in Australia includes roles as Chief Financial Officer with Stockland Limited, Graincorp Limited and the Wizard Mortgage Corporation. He is also a Fellow of the Australian Institute of Company Directors (FAICD) and a Fellow of CPA Australia (FCPA).

Company Secretary

Ian Morgan B Bus (NSW Institute of Technology), M Com Law (Macquarie University), Grad Dip App Fin (Securities Institute of Australia) CA, ACIS, MAICD, F Fin, was appointed Company Secretary on 3rd August 2005. Mr Morgan is a Chartered Accountant and Chartered Company Secretary with over 25 years of experience. He provides secretarial and advisory services to a range of companies, and is Company Secretary of other listed public companies.

Directors' meetings

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

	Board Meetings		*Audit Committee Meetings*	
	Eligible	Attended	Eligible	Attended
Anthony Haggarty	11	9	2	2
Li Li	11	8	2	1
Robin Morritt	11	11	2	2
Andrew Plummer	11	11	2	2

Principal activities

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

1. The development of the tungsten mine on King Island through the Dolphin Joint Venture and after termination of such, the Dolphin Project; and
2. The exploration and evaluation of tenements in North West Tasmania through the Balfour Joint Venture.

For details of the Balfour Joint Venture, see Note 12.

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 Project – 100% interest

The project is focused on the redevelopment of the tungsten deposit on King Island. Major achievements for the year ending 30th June 2012 include:

1. Finalised the Definitive Feasibility Study (DFS), incorporating:
   a. Re-treatment of the tailings resource to generate early cash flow.
   b. Improved mining methods and a revised development plan which increased the estimated reserve for the Dolphin underground by 33%.
   c. Metallurgical test work done under Australian conditions with confirmation of flotation techniques and recoveries, and finalisation of the detailed mill design.
   d. Agreement reached with all Government and regulatory bodies for all project permits and approvals.
2. Completed the surface drilling programme in two locations outside the JORC compliant Dolphin resource, with both holes intersecting scheelite mineralisation and providing encouraging results. The third hole in the programme was discontinued due to ongoing technical difficulties penetrating the Decline Fault and the Company plans to recommence this exploration from underground platforms once the mine is reopened.
3. Finalised the purchase of land from King Island Council, comprising 240.9ha and covering the land required for the mine site, tailings dam and processing facilities.
4. Discussions held with key off-takers from around the world with indications from large and reputable entities that they would like to take most, if not all, of the forecast production for the life of mine.
5. Indications from the major Australian banks that they would lend at least half of the necessary project funding on the back of the aforementioned off-taker agreements.

To date, the Company has all the necessary land, permits and approvals to progress this redevelopment into the construction phase, subject to securing full funding. With the slowing of equity markets and delays in securing full project funding however, the Company have implemented a series of corporate cost-cutting measures. In conjunction with the capital raising currently being undertaken, this will see the Company well-placed to ride out at least the next year with a view to securing funding during that time.

Balfour Joint Venture (BJV) – 70% interest

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

Based on the results of the previously undertaken drilling programme, a future exploration programme has been developed and the tenements extended to October 2012. Expressions of interest are being sought to farm-into this project and provide funding for the planned exploration programme in return for equity in the project.

Financial

The Group retained a cash balance of $1,021,000 at 30th June 2012 (2011 $5,657,000).

A renounceable rights issue was undertaken early in 2011 with $5,054,000 raised through the issue of 19,439,593 shares at 26 cents. This was used to fund the last programme of works on the Dolphin Project, culminating in the Definitive Feasibility Study.

In light of the current delays in securing equity financing for the Dolphin Project and subsequent wind-back of the corporate cost structure, a further fundraising of $992,980 from existing shareholders was undertaken and closed on 31st August 2012. This will fund the company for a minimum of twelve months, during which time it is hoped an equity investor will be found.

Outlook

The Company has recently completed a review of its business and implemented a number of significant cost-cutting measures, including retrenching current full-time staff and consolidating corporate functions for the short term.

Despite this, the economic circumstances driving the tungsten market remain positive and the Company is confident that the world class project on King Island remains well placed to rapidly address this demand through early production from retreated tailings and subsequent production from underground operations.

As equity markets strengthen, the Company will be in a position to finalise the funding arrangements required to bring the project into production, including off-take commitments with key end users to underpin debt facilities in conjunction with future equity raisings.

Dividends

There were no Dividends paid or declared by the Company to members during or since the end of the financial year (2011 Nil).

Events subsequent to the reporting date

Since the reporting date, three events have been announced to the Australian Securities Exchange.

1. A review of the Company's business was announced as a result of the decline in financial market conditions and the delay in securing funding for the Dolphin Project. The objective of this review is to reduce overhead costs and conserve cash during the interim period until funding can be sourced.
2. On 31st August 2012 the Company closed a capital raising through a 1:6 renounceable rights issue to eligible shareholders of ordinary shares. This offer was underwritten and raised $992,980 before capital raising costs, the proceeds of which will be used to fund working capital for at least the next twelve months while the Company progresses development funding for the Dolphin Project.

3. On 16th August 2012, Non-Executive Director Mr Li Li and his alternate, Ms Fang Wu, resigned from the Board of Directors of the Company.

Directors' interests

The relevant beneficial interest of each director in the shares issued by the companies within the Group 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	9,584,319
Robin Morritt	13,579,858
Andrew Plummer	5,170,590

Environmental regulation

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

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

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 $24,023 (2011 $24,066), exclusive of GST, for this insurance cover.

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

Non-audit services

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

	Consolidated	
Audit Services	**2012**	2011
	$	$
Auditors of the Company		
KPMG Australia		
Audit and review of financial reports	**57,500**	54,800

Remuneration Report (Audited)

The Company has 3 non-executive directors and 1 Chief Executive Officer. A remuneration policy is in place for the Chief Executive Officer.

Contract terms and conditions

All directors are paid for the time incurred in attending board meetings. 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 (2011 $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 (2011 $26,400 p.a. plus 9% statutory superannuation) to be a non-executive Director. Any further work on behalf of the Company is paid on a time incurred basis. No annual or long service leave accrues to Dr Morritt.

Mr 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 (2011 $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 Li (Non-Executive) – (resigned 15th August 2012)

During the financial year, an entity associated with Mr Li was paid at the rate of $26,400 p.a. plus 9% statutory superannuation (2011 $26,400 p.a. plus 9% statutory superannuation) for Mr Li 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 Li.

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	$367,000 per annum inclusive of salary and 9% superannuation.
Incentive Payment	At the Board's discretion, a cash bonus may be paid on anniversary (no bonus has been paid in the 2012 Financial Year).
Options	On 21 January 2009, three tranches of options were issued to Mr Bird. Details of these options are set out below. At any time prior to 31 December 2013 and unless the Board resolves otherwise, if Mr Bird ceases to be an employee of the Company for any reason other than retirement, permanent disability, redundancy or death, all vested options held by Mr Bird will, to the extent they have not already been exercised, automatically lapse on the earlier of (a) expiry of three calendar months from date Mr Bird's employment ceases; and (b) 31 December 2013.
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.

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.

Remuneration Report (continued)

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.

Consequences of performance on shareholders' wealth

During the 2012 financial year the Company issued 932,557 ordinary shares to Pacific Road Corporate Finance being advisory fees in relation to the capital raising undertaking in the 2011 financial year. At 30th June 2012 the Company had 82,745,908 ordinary shares on issue. The net assets of the Group have decreased by $277,000 from $34,869,000 at 30th June 2011 to $34,592,000 at 30th June 2012. The Company's working capital, being current assets less current liabilities, has decreased from $4,930,000 in 2011 to $973,000 at 30th June 2012.

At the date of this report and together with the proceeds from the current underwritten renounceable rights issue to raise $1,000,000, the Group has sufficient funds to finance its operations for at least a further twelve months, with fundraising for construction of the Dolphin Project to continue to be sought during this time.

Performance-linked compensation

The chief executive officer, Simon Bird, commenced in January 2009 under a contract that is reviewed annually. Incorporated into this contract is an incentive payment, payable at the Board's discretion, and being $Nil paid in the 2012 financial year (2011: $50,000).

In exercising its discretion and in determining whether, acting reasonably, all or part of the incentive payment is to be paid, the Board of the Company must consider matters including, but not limited to:

(a) Completion of the Dolphin tailings feasibility study;
(b) Amendment of approvals and acquisition of council land;
(c) Undertaking of drilling at Dolphin South;
(d) The performance of the executive relative to the objectives set by the Board from time to time;
(e) The performance of the Company's share price as attributable to the executive's performance;
(f) The Company's financial performance for the period relevant to the incentive payment; and,
(g) The contribution of the executive toward progressing the Dolphin project and adding value to the Company.

Remuneration Report (continued)

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

		Short-term				Post-employment	Other long term	Termination benefits	Share-based payments	Total	Proportion of remuneration performance related	Value of options as proportion of remuneration %
		Salary & fees	Cash bonus	Non-monetary benefits	Total	Super benefits						
		$	$	$	$	$	$	$	$	$		
Directors												
A Haggarty[1]	**2012**	**30,987**	**-**	**-**	**30,987**	**2,789**	**-**	**-**	**-**	**33,776**	**-**	**-**
	2011	30,987	-	-	30,987	2,789	-	-	-	33,776	-	-
R Morritt	**2012**	**26,400**	**-**	**-**	**26,400**	**2,376**	**-**	**-**	**-**	**28,776**	**-**	**-**
	2011	26,400	-	-	26,400	2,376	-	-	-	28,776	-	-
A Plummer[1]	**2012**	**26,400**	**-**	**-**	**26,400**	**2,376**	**-**	**-**	**-**	**28,776**	**-**	**-**
	2011	26,400	-	-	26,400	2,376	-	-	-	28,776	-	-
L Li	**2012**	**26,400**	**-**	**-**	**26,400**	**2,376**	**-**	**-**	**-**	**28,776**	**-**	**-**
	2011	3,110	-	-	3,110	280	-	-	-	3,390	-	-
S Zeng	**2012**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
	2011	23,290	-	-	23,290	2,096	-	-	-	25,386	-	-
Executive												
S Bird (CEO)	**2012**	**339,575**	**-**	**5,940**	**345,515**	**18,937**	**-**	**-**	**-**	**364,452**	**-**	**-**
	2011	351,287	50,000	3,670	404,957	22,219	-	-	22,500	449,676	72,500	16.1
Total compensation (The Group and Company)	**2012**	**449,762**	**-**	**5,940**	**455,702**	**28,854**	**-**	**-**	**-**	**484,556**	**-**	**-**
	2011	461,474	50,000	3,670	515,144	32,136	-	-	22,500	569,780	72,500	12.7

[1] For the year ended 30th June 2012 the Company paid a total of $62,552 (2011 $65,802) to companies controlled by Messrs. Haggarty and Plummer for Mr. Haggarty's director fees $33,776 (2011 $33,776), Mr Plummer's director fees $28,776 (2011 $28,776) and consulting services $Nil (2011 $3,250).

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	
		$	$			**2012**	2011
Executive							
S Bird	21 Jan 2009	9 cents	25 cents	31 Dec 2013	1,000,000	**1,000,000**	1,000,000
	21 Jan 2009	6 cents	50 cents	31 Dec 2013	1,500,000	**1,500,000**	1,500,000
	21 Jan 2009	Nil	$1.00	31 Dec 2013	2,000,000	**2,000,000**	-
					4,500,000	**4,500,000**	2,500,000

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

At any time prior to 31 December 2013 and unless the Board resolves otherwise, if Mr Bird ceases to be an employee of the Company for any reason other than retirement, permanent disability, redundancy or death, all vested options held by Mr Bird will, to the extent they have not already been exercised, automatically lapse on the earlier of (a) expiry of three calendar months from date Mr Bird's employment ceases; and (b) 31 December 2013. The options are exercisable for five years from employment date (1st January 2009). For options granted during the year ended 30th June 2009, the earliest exercise date was 1st 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.

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[2]	
				2012 %	2011 %	**2012 %**	2011 %
Executive							
S Bird	21 Jan 2009	1 Jan 2010	1,000,000	**100.0**	100.0	**-**	-
	21 Jan 2009	1 Jan 2011	1,500,000	**100.0**	100.0	**-**	-
	21 Jan 2009	1 Jan 2012	2,000,000	**100.0**	-	**-**	-
			4,500,000	**100.0**	55.6	**-**	-

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

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
			4,500,000

At any time prior to 31 December 2013 and unless the Board resolves otherwise, if Mr Bird ceases to be an employee of the Company for any reason other than retirement, permanent disability, redundancy or death, all vested options held by Mr Bird will, to the extent they have not already been exercised, automatically lapse on the earlier of (a) expiry of three calendar months from date Mr Bird's employment ceases; and (b) 31 December 2013. The options are exercisable for five years from employment date (1st January 2009). For options granted during the year ended 30th June 2009, the earliest exercise date was 1st January 2010. Subject to vesting and termination of the individual's employment, the options are exercisable for five years from employment date (1st 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.

No options were granted, exercised or lapsed during the financial year.

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

Corporate Governance Statement

Unless disclosed below, all the best practice recommendations of the ASX Corporate Governance Council have been applied for the entire financial year ended 30th June 2012. 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.

ASX Principles/ Recommendations	Compliance	Details	Disclosure Requirement for Non Compliance
Principle 1			
Principle 1 – Lay solid foundations for management and oversight. Companies should establish and disclose the respective roles and responsibilities of board and management.			

ASX Principles/ Recommendations	Compliance	Details	Disclosure Requirement for Non Compliance
Recommendation 1.1: Companies should establish the functions reserved to the board and those delegated to senior executives and disclose those functions.	Comply	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.	Not Applicable
Recommendation 1.2: Companies should disclose the process for evaluating the performance of senior executives.	Comply	The Chief Executive Officer reviews the performance of senior executives.	Not Applicable
Recommendation 1.3: Companies should provide the information indicated in the Guide to reporting on Principle 1.	Comply		Not Applicable
Principle 2			
Principle 2 – Structure the board to add value. Companies should have a board of an effective composition, size and commitment to adequately discharge its responsibilities and duties.			

ASX Principles/ Recommendations	Compliance	Details	Disclosure Requirement for Non Compliance
Recommendation 2.1: A majority of the board should be independent directors.	Does not comply	At present, the Board of three 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; and each Director-independent or not-brings an independent judgement to bear on Board decisions. 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 chair should be an independent director.	Does not comply	The Chairman is a non-executive Director, but not independent.	The Board considers that the Board's structure is still appropriate to the Company's size; and each Director-independent or not- brings an independent judgement to bear on Board decisions.
Recommendation 2.3: The roles of chair and chief executive officer should not be exercised by the same individual.	Comply	The Chairman and Chief Executive Officer are different individuals.	Not Applicable
Recommendation 2.4: The board should establish a nomination committee.	Does not comply		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.

ASX Principles/ Recommendations	Compliance	Details	Disclosure Requirement for Non Compliance
Recommendation 2.5: Companies should disclose the process for evaluating the performance of the board, its committees and individual directors.	Comply	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 the 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.	Not Applicable
Recommendation 2.6: Companies should provide the information indicated in the Guide to reporting on Principle 2.	Comply		Not Applicable
Principle 3			
Principle 3 – Promote ethical and responsible decision-making. Companies should actively promote ethical and responsible decision-making.			

ASX Principles/ Recommendations	**Compliance**	**Details**	**Disclosure Requirement for Non Compliance**
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.	Does not comply		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 diversity and disclose the policy or a summary of that policy. The policy should include requirements for the board to establish measurable objectives for achieving gender diversity for the board to assess annually both the objectives and progress in achieving them.	Comply	The Company intends to make each staff appointment after consideration of each candidate's qualifications, experience and proven competence, whilst conscientiously avoiding any discrimination on the basis of, but not limited to, race, creed, colour, gender, age, marital status, religion or physical impairment.	Not applicable
Recommendation 3.3: Companies should disclose in each annual report the measurable objectives for achieving gender diversity set by the board in accordance with the diversity policy and progress towards achieving them.	Does not comply		The Company will apply its best endeavours to disclose in each annual report the measureable objectives for achieving gender diversity set by the Board in accordance with the diversity policy and progress towards achieving them.
Recommendation 3.4: Companies should disclose in each annual report the proportion of women employees in the whole organisation, women in senior executive positions and women on the board.	Comply	The Company has no women on its Board. The Chief Executive Officer is a man. The Company's Finance Manager, who reports to the Chief Executive Officer, is a woman.	Not Applicable

ASX Principles/ Recommendations	Compliance	Details	Disclosure Requirement for Non Compliance
Recommendation 3.5: Companies should provide the information indicated in the Guide to reporting on Principle 3.	Comply		Not Applicable
Principle 4			
Principle 4 – Safeguard integrity in financial reporting. Companies should have a structure to independently verify and safeguard the integrity of their financial reporting.			
Recommendation 4.1: The board should establish an audit committee.	Comply		Not Applicable
Recommendation 4.2: The audit committee should be structured so that it: • consists only of non-executive directors • consists of a majority of independent directors • is chaired by an independent chair, who is not chair of the board • has at least three members.	Does not comply	The Company's Audit Committee comprises the full Board. The Chairman of the Audit Committee is also the Chairman of the Board. Details of the Audit Committee Member's qualifications, experience, and special responsibilities are in the Directors Report included in the 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.	This Audit Committee structure is considered to be commercially cost effective, and appropriate to the Company's size and structure.

ASX Principles/ Recommendations	Compliance	Details	Disclosure Requirement for Non Compliance
Recommendation 4.3: The audit committee should have a formal charter.	Does not comply	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.	Comply		Not Applicable
Principle 5			
Principle 5 – Make timely and balanced disclosure. Companies should promote timely and balanced disclosure of all material matters concerning the company.			

ASX Principles/ Recommendations	Compliance	Details	Disclosure Requirement for Non Compliance
Recommendation 5.1: Companies should establish written policies designed to ensure compliance with ASX Listing Rule disclosure requirements and to ensure accountability at a senior executive level for that compliance and disclose those policies or a summary of those policies.	Comply	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.	Not Applicable
Recommendation 5.2: Companies should provide the information indicated in the Guide to reporting on Principle 5.	Comply		Not Applicable
Principle 6			
Principle 6 – Respect the rights of shareholders. Companies should respect the rights of shareholders and facilitate the effective exercise of those rights.			

ASX Principles/ Recommendations	**Compliance**	**Details**	**Disclosure Requirement for Non Compliance**
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.	Comply	The Company aims to convey to its shareholders pertinent information in a factual, timely, regular and detailed 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 and the Australian Securities & Investments Commission; 4. Notices and explanatory memoranda of annual general meetings; and 5. The Invitation 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.	Not Applicable

ASX Principles/ Recommendations	Compliance	Details	Disclosure Requirement for Non Compliance
Recommendation 6.2: Companies should provide the information indicated in the Guide to reporting on Principle 6.	Comply		Not Applicable
Principle 7			
Principle 7 – Recognise and manage risk. Companies should establish a sound system of risk oversight and management and internal control.			
Recommendation 7.1: Companies should establish policies for the oversight and management of material business risks and disclose a summary of those policies.	Comply	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.	Not Applicable

ASX Principles/ Recommendations	Compliance	Details	Disclosure Requirement for Non Compliance
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.	Comply	The Chief Executive Officer manages the Company's material business risks and reports to the Audit Committee. **Materiality thresholds** The Corporate Governance Policy requires the Company to regularly review procedures, and ensure 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: 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 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.	Not Applicable
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.	Comply	The Company requires that these statements are certified by the Chief Executive and Company Secretary.	Not Applicable

ASX Principles/ Recommendations	Compliance	Details	Disclosure Requirement for Non Compliance
Recommendation 7.4: Companies should provide the information indicated in the Guide to reporting on Principle 7.	Comply		Not Applicable
Principle 8			
Principle 8 – Remunerate fairly and responsibly. Companies should ensure that the level and composition of remuneration is sufficient and reasonable and that its relationship to performance is clear.			
• Recommendation 8.1: The board should establish a remuneration committee.	Does not comply		The Board would operate as a Remuneration Committee, as required.
Recommendation 8.2: The remuneration committee should be structured so that it: • consists of a majority of independent directors • is chaired by an independent chair • has at least three members.	Does not comply		The Board would operate as a remuneration committee, as required. This structure is considered to be commercially cost effective, and appropriate to the Company's size and structure.

ASX Principles/ Recommendations	Compliance	Details	Disclosure Requirement for Non Compliance
• Recommendation 8.3: Companies should clearly distinguish the structure of non-executive directors' remuneration from that of executive directors and senior executives.	Comply	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 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.	Not Applicable
• Recommendation 8.4: Companies should provide the information indicated in the Guide to reporting on Principle 8.	Comply		Not Applicable

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 64 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

17th September 2012

Consolidated Statement of Comprehensive Income

For the year ended 30 June 2012

	Note	2012 $000	2011 $000
Revenue		-	-
Cost of sales		-	-
Gross profit		-	-
Employee expenses	4	(421)	(562)
Administrative expenses		(509)	(840)
Depreciation		(7)	(9)
Results from operating activities		(937)	(1,411)
Financial income – interest		141	141
Financial expense – interest		-	-
Net finance income		141	141
Gain on acquisition of 50% of the Dolphin Joint Venture's net assets	6	-	1,777
(Loss) / Profit before tax		(796)	507
Income tax benefit	7	239	97
Net (loss) / profit attributable to members of the parent		(557)	604
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		(557)	604
(Loss) / Earnings per share		cents	Cents
Basic (loss) / earnings per share attributable to ordinary equity holders	8	(0.7)	0.9
Diluted (loss) / earnings per share attributable to ordinary equity holders	8	(0.7)	0.9

The Notes on pages 30 to 62 are an integral part of these Consolidated Financial Statements.

Consolidated Statement of Changes in Equity

For the year ended 30 June 2012

Consolidated	Issued Capital	Accumulated Profits/(losses)	Share Option reserve	**Total equity**
	$000	$000	$000	**$000**
Balance at 1 July 2010	43,955	(14,647)	327	**29,635**
Net profit for the year	-	604	-	**604**
Share rights issue	4,607	-	-	**4,607**
Options granted to employee	-	-	23	**23**
Balance at 30 June 2011	48,562	(14,043)	350	**34,869**
Balance at 1 July 2011	48,562	(14,043)	350	**34,869**
Net loss for the year	-	(557)	-	**(557)**
Shares issued to Pacific Road	280	-	-	**280**
Balance at 30 June 2012	48,842	(14,600)	350	**34,592**

The Notes on pages 30 to 62 are an integral part of these Consolidated Financial Statements.

Consolidated Statement of Financial Position

As at 30 June 2012

	Note	2012	2011
		$000	$000
Assets			
Cash and cash equivalents	9	**1,021**	5,657
Trade and other receivables	10	**79**	120
Inventories	11	**28**	28
Total current assets		**1,128**	5,805
Trade and other receivables	10	**15**	15
Property, plant and equipment	15	**1,028**	489
Intangible assets	16	**34,272**	31,371
Total non-current assets		**35,315**	31,875
Total assets		**36,443**	37,680
Liabilities			
Trade and other payables	17	**110**	840
Provisions	18	**45**	35
Total current liabilities		**155**	875
Deferred tax liabilities	14	**1,696**	1,936
Total non-current liabilities		**1,696**	1,936
Total liabilities		**1,851**	2,811
Net assets		**34,592**	34,869
Equity			
Issued capital	19	**48,842**	48,562
Reserves	19	**350**	350
Accumulated losses		**(14,600)**	(14,043)
Total equity		**34,592**	34,869

The Notes on pages 30 to 62 are an integral part of these Consolidated Financial Statements.

Consolidated Statement of Cash Flows

For the year ended 30 June 2012

	Note	2012 $000	2011 $000
Cash flows used in operating activities			
Cash paid to suppliers and employees		**(1,039)**	(643)
Cash used in operations		**(1,039)**	(643)
Research and development expenditure tax rebate		**-**	34
Interest received		**141**	141
Net cash used in operating activities	23	**(898)**	(468)
Cash flows used in investing activities			
Payment for property, plant and equipment		**(550)**	(15)
Purchase of industrial property		**(20)**	(30)
Purchase of exploration and evaluation assets		**(3,168)**	(1,240)
Net cash used in investing activities		**(3,738)**	(1,285)
Cash flows from financing activities			
Proceeds from the issue of share capital		**-**	5,054
Cost of issuing share capital		**-**	(447)
Proceeds from borrowings		**-**	182
Net cash generated from financing activities		**-**	4,789
Net (decrease) / increase in cash and cash equivalents		**(4,636)**	3,036
Cash and cash equivalents at 1 July		**5,657**	2,621
Cash and cash equivalents at 30 June	9	**1,021**	5,657

The Notes on pages 30 to 62 are an integral part of these Consolidated Financial Statements.

Notes to the consolidated financial statements

1 Significant accounting policies

King Island Scheelite Limited (the "Company") is a for-profit company domiciled in Australia. The consolidated financial report of the Company for the year ended 30th June 2012 comprise the Company and its subsidiaries (together referred to as the "Group") and the Group's interest in associates.

On 17th September 2012, the consolidated financial report was authorised for issue by the directors.

(a) Statement of compliance

The consolidated financial statements are general purpose financial statements which have been prepared in accordance with Australian Accounting Standards (AASBs) adopted by the Australian Accounting Standards Board (AASB) and the Corporations Act 2001. The consolidated financial statements comply with International Financial Reporting Standards (IFRSs) 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 other than share-based transactions that are assessed at fair value.

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 Group.

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 WO_3(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.

(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 Parent Entity's financial statements at the lower of cost and recoverable amount.

Associates

Associates are those entities for which the Group has significant influence, but not control, over the financial and operating policies. The financial report includes the Group'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 Group's share of losses exceeds its interest in an associate, the Group's carrying amount is reduced to nil and recognition of further losses is discontinued except to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of an associate.

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

Joint ventures

Joint ventures are those arrangements over whose activities the Group 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 Group'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 Group's share of the joint venture arrangements other movements in reserves are recognised directly in the consolidated reserves.

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

(c) Basis of consolidation (continued)

Jointly controlled operations and assets

The interest of the Group 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 Group's interest in the entity, with adjustments made to the "Investment in associates" and "Share of associates' net profit" accounts.

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

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

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

	2012	2011
▪ plant and equipment	**2.5 to 10 years**	2.5 to 10 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.

(f) Trade and other receivables

Trade and other receivables are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition they are stated at amortised cost less impairment losses (see accounting policy 1 (i)).

(g) Cash and cash equivalents

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

(h) Inventories

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

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

Net realisable value (NRV) is determined on the basis of the Group'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 Group'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.

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

Site Restoration

In accordance with the Group'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.

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.

(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.

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

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

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

Tax consolidation

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

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

(o) Income tax (continued)

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

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

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

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

(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) Removal of parent entity financial statements

The Group has applied amendments to the Corporations Act (2001) that remove the requirements for the Group to lodge parent entity financial statements. Parent entity financial statements have been replaced by the specific parent entity disclosure in Note 29.

(t) New Standards/Interpretations not yet adopted

A number of new standards, amendments to standards and interpretations are effective for annual periods beginning after 1 July 2011, and have not been applied in preparing these consolidated financial statements. None of these is expected to have a significant effect on the consolidated financial statements of the Group, except for AASB 9 *Financial Instruments*, which becomes mandatory for the Group's 2014 consolidated financial statements and could change the classification and measurement of financial assets. The Group does not plan to adopt this standard early and the extent of the impact has not been determined.

(u) Determination of fair values

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

Trade and other receivables

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

Non-derivative financial liabilities

Fair value, which is determined for disclosure purposes, is calculated based on the present value of future principal and interest cash flows, discounted at the market rate of interest at the reporting date. In respect of the liability component of convertible notes, the market rate of interest is determined by reference to similar liabilities that do not have a conversion option. For finance leases the market rate of interest is determined by reference to similar lease agreements.

Share-based payment transactions

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

(v) Determination and presentation of operating segments

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

The Group is involved solely in development of the King Island scheelite deposit and exploration for tin and tungsten and has a single operating segment that its Chief Executive Officer reviews regularly to make decisions about resources to be allocated to the segment and to assess its performance.

2 Going concern

The financial report has been prepared on the basis of a going concern. This basis presumes that funds will be available to finance future operation and that the realisation of assets and settlement of liabilities will occur in the normal course of business. The Directors believe that the Group will be able to fund future operations through share issues, debt raising, joint venturing or off-take agreements for the sale of tungsten. Without this funding, there is a material uncertainty whether the Group will be able to continue as a going concern. In order to improve the cash position of the Company, the following steps have been undertaken since 30th June 2012

- A review of the Company's business was announced in July 2012 as a result of the decline in financial market conditions and the delay in securing funding for the Dolphin Project. The objective of this review is to reduce overhead costs and conserve cash during the interim period until funding can be sourced.

- On 31st August 2012 the Company closed a capital raising through a 1:6 renounceable rights issue to eligible shareholders of ordinary shares. This offer was underwritten and raised $992,980 before capital raising costs, the proceeds of which will be used to fund working capital for at least the next twelve months while the Company progresses development funding for the Dolphin Project.

If the Group is unable to continue as a going concern in the future, it may be required to make adjustments relating to the recoverability and classification of recorded asset amounts and classification of liabilities in order to realised its assets and extinguish its liabilities other than in the normal course of business and at amounts different from those stated in the financial report.

3 Segment reporting

Business and geographical segments

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

Products and services

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

3 Segment reporting (continued)

Geographical areas

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

4 Employee expenses

	Note	2012	2011
		$000	$000
Salaries and fees		**382**	491
Superannuation		**29**	32
Option expense	19	**-**	23
Decrease in annual leave provision		**(1)**	11
Workers' Comp premiums & Payroll Tax		**11**	5
		421	562

5 Auditors' Remuneration

Auditors of the Company *KPMG Australia:*	2012	2011
	$	$
Audit and review of financial reports	**57,500**	54,800
	57,500	54,800

The auditors of the Company KPMG Australia did not perform other services for the Group during the year (2011: nil).

6 Gain on acquisition of 50% of Dolphin Joint Venture's net assets

While there was no financial impact on this item during the year ended 30th June 2012, during the year ended 30th June 2011, the Dolphin Joint Venture (DJV) was terminated and 50% of the DJV's net assets were acquired by the Company, increasing the Company's interest in these net assets to 100%. No intangible assets were included in the financial gain recognised, however the forgiveness of the HNC loan and the reversal of capitalised interest on this loan to date were included in the total gain recorded at 30th June 2011.

	2012	2011
	$000	$000
Increase in cash and cash equivalents	**-**	29
Forgiveness of loan payable	**-**	1,916
Reversal of forgiven loan interest previously capitalised	**-**	(168)
Net gain on acquisition included in profit	**-**	1,777

7 Income tax

	Note	2012 $000	2011 $000
Numerical reconciliation between tax benefit and pre-tax net loss			
(Loss) / Profit before tax		**(796)**	507
Prima facie Income tax benefit / (expense) at a tax rate of 30%		**239**	(152)
(Decrease) / Increase in income tax benefit due to:			
Equity raising costs		**-**	27
Non-allowable items		**-**	(6)
Non assessable gain on forgiveness of loan		**-**	575
Commercial debt forgiveness reduction in carried forward tax losses		**-**	(575)
	14	**239**	(131)
Research and development expenditure tax rebate		**-**	34
Tax losses booked and not previously recognised		**-**	194
Income tax benefit on pre-tax net profit / (loss)		**239**	97

Recognised in the Statement of Comprehensive Income

	2012	2011
Current year benefit	**-**	**477**
Deferred tax benefit / (expense)	**239**	**(380)**
	239	**97**

Unrecognised deferred tax assets

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

	2012 $000	2011 $000
Capital tax losses	**1,431**	1,431

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 taxable profit will be available against which the benefits can be offset.

8 (Loss) / Earnings per share

Basic and diluted (loss) / earnings per share

The calculation of basic and diluted (loss) / earnings per share at 30th June 2012 was based on the loss attributable to ordinary shareholders of $557,000 (2011: profit $604,000) and a weighted average number of ordinary shares outstanding during the year ended 30th June 2012 of 82,462,308 (2011: 66,348,495), calculated as follows:

	2012	2011
	$000	$000
(Loss) / Earnings for the year attributable to ordinary shareholders	**(557)**	604

Weighted average number of ordinary shares

Number of shares	**2012**	2011
	'000	'000
Issued ordinary shares at 1 July	**81,813**	62,374
Effect of shares issued 14 April 2011	**-**	2,157
Effect of shares issued 19 April 2011	**-**	1,817
Effect of shares issued 20 October 2011	**649**	-
Weighted average number of ordinary shares used in calculating basic and diluted (loss) / earnings per share	**82,462**	66,348

As the Company's average share price for the year ended 30th June 2012 was below the strike prices of all options outstanding, and there were losses for the previous years attributable to ordinary shareholders, options issued by the Company (Note 24) are not dilutive.

9 Cash and cash equivalents

	2012	2011
	$000	$000
Bank balances	**22**	137
Call deposits	**999**	5,520
Cash and cash equivalents in the statements of cash flows	**1,021**	5,657

10 Other receivables

Current		
Other receivables	**10**	45
Prepayments	**69**	75
	79	120
Non current		
Deposits	**15**	15

11 Inventories

	2012	2011
	$000	$000
Finished goods	**28**	28

12 Interests in Joint Ventures

	Ownership	
	2012	2011
	%	%
Balfour Joint Venture	**70.0%**	70.0%

Balfour Joint Venture (BJV)

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

The Company undertook a drilling programme in 2009/10 recording tin-tungsten intercepts at Specimen Hill and copper-gold at Roaring 41 South.

On completion of this programme, the Company's interest increased from 35% to 70%. This programme and any future work will be 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 Morritt is also a director and shareholder of Pleiades.

13 Equity Accounted Investee

GTN Copper Technology Pty Ltd

				Ownership interest	
Name	Principal activities	Country of incorporation	Reporting date	**2012**	2011
GTN Copper Technology Pty Ltd	Evaluation of copper projects using Intec technology	Australia	30 June	**-**	36.3%

The contribution by GTN Copper Technology Pty Ltd to the Group's operating result for the financial year ended 30th June 2012 was $Nil (2011 $Nil). There were no assets and liabilities employed in the joint venture included in the assets and liabilities of the Group at 30th June 2012 (2011 $Nil). GTN Copper Technology Pty Ltd was de-registered on 4th March 2012.

14 Deferred tax assets and liabilities

Recognised deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following:

	Note	Assets		Liabilities		Net	
		2012	2011	**2012**	2011	**2012**	2011
Consolidated		**$000**	$000	**$000**	$000	**$000**	$000
Intangible assets		**-**	-	**9,312**	8,442	**9,312**	8,442
Provisions		**(7)**	(9)	**-**	-	**(7)**	(9)
Tax losses available		**(7,609)**	(6,628)	**-**	-	**(7,609)**	(6,628)
Tax losses utilised	7	**-**	131	**-**	-	**-**	131
Tax (assets)/liabilities		**(7,616)**	(6,506)	**9,312**	8,442	**1,696**	1,936
Set off of tax		**7,616**	6,506	**(7,616)**	(6,506)	**-**	-
Net tax (assets)/liabilities		**-**	-	**1,696**	1,936	**1,696**	1,936

15 Property, Plant and Equipment

	Land $000	Plant and equipment $000	**Total $000**
Cost			
Balance at 1 July 2010	403	103	**506**
Additions	-	15	**15**
Balance at 30 June 2011	403	118	**521**
Balance at 1 July 2011	403	118	**521**
Adjustment / Reclassification	60	(60)	**-**
Additions	480	71	**551**
Balance at 30 June 2012	943	129	**1,072**
Depreciation			
Balance at 1 July 2010	-	(21)	**(21)**
Depreciation change for the year	-	(9)	**(9)**
Depreciation booked to intangibles	-	(2)	**(2)**
Balance at 30 June 2011	-	(32)	**(32)**
Balance at 1 July 2011	-	(32)	**(32)**
Depreciation change for the year	-	(7)	**(7)**
Depreciation booked to intangibles	-	(5)	**(5)**
Balance at 30 June 2012	-	(44)	**(44)**
Carrying amounts			
At 1 July 2010	403	82	**485**
At 30 June 2011	403	86	**489**
At 1 July 2011	403	86	**489**
At 30 June 2012	943	85	**1,028**

16 Intangible assets

	Exploration and evaluation	Other	Mining Rights	Deposit	**Total**
	$000	$000	$000	$000	$000
Cost					
Balance at 1 July 2010	10,212	151	19,839	7	**30,209**
Additions	1,120	30	19	(7)	**1,162**
Balance at 30 June 2011	11,332	181	19,858	-	**31,371**
Balance at 1 July 2011	11,332	181	19,858	-	**31,371**
Additions	2,901	-	-	-	**2,901**
Balance at 30 June 2012	14,233	181	19,858	-	**34,272**

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.

17 Trade and other payables

	2012	2011
	$000	$000
Current		
Trade payables	**61**	335
Other trade payables and accrued expenses	**49**	505
	110	840

18 Provisions-current

	Employee Entitlement for Annual Leave	**Total**
	$000	**$000**
Cost		
Balance at 30 June 2010	9	**9**
Provision made during the year	26	**26**
Balance at 30 June 2011	35	**35**
Provision made during the year	10	**10**
Balance at 30 June 2012	45	**45**

19 Capital and reserves

Share capital

Ordinary shares issued and fully paid	Number of shares	Issue Price Cents per share	$000
1st July 2010 opening balance	62,373,758		43,955
Renounceable rights issue			
Shares issued 14th April 2011 for acceptances	10,225,647	26.00	2,659
Shares issued 19th April 2011 for underwriting	5,367,793	26.00	1,395
Placement shares issued 19th April 2011	3,846,153	26.00	1,000
Costs in relation to the capital raising	-		(447)
30th June 2011 balance	81,813,351		48,562
Shares issued 20th October 2011 to Pacific Road Corporate Finance as advisory fee	932,557	29.96	280
30th June 2012 balance	82,745,908		48,842

Ordinary shares entitle the holder to participate in any dividend of the Company payable on all shares pro rata to the total amount for the time being paid, but not credited as paid, in respect of the shares as a proportion of the total of the amounts then paid and payable thereon, excluding amounts credited.

Subject to the ASX listing rules, the Company's Board may resolve that the whole or any portion of any sum forming part of the undivided profits of the Company or standing to the credit of any reserve or other account and which is available for distribution, be capitalised and distributed to shareholders in the same proportions in which they would be entitled to receive it if distributed by way of dividend or in accordance with either the terms of issue of any shares or the terms of any plan for the issue of securities for the benefit of officers or employees.

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

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

At a general meeting on a show of hands, each shareholder present in person or by proxy has one vote and on a poll each shareholder present in person or by proxy has:
(i) one vote for each fully paid share held; and
(ii) for each share which is not fully paid a fraction of a vote equivalent to the proportion which the amount paid up, but not credited as paid up, on that share bears to the total of the amounts paid and payable (excluding amounts credited) on that share.

Ordinary shares have no par value and the Company does not have a limited amount of authorised capital.

19 Capital and reserves (continued)

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.

Information relating to the employee options, including details of options issued, exercised and lapsed during the financial year and options outstanding at the end of the reporting period, is set out in Note 24.

Capital Raisings

During the year ended 30th June 2011 the Company raised $4,054,000 through a 1:4 renounceable rights offer. The offer closed on 7th April 2011 with eligible shareholders taking up a total of 10,225,647 shares, or approximately 66% of shares offered, and the remaining 5,367,793 shares taken up by the Underwriter. In addition to this Rights Issue, a further placement was done for an additional 3,846,153 shares, raising $1,000,000. This took the total raised in April 2011 to $5,054,000 before costs. During the year ended 30th June 2012 no capital raisings were undertaken.

On 31st August 2012 the Company closed a capital raising through a 1:6 renounceable right issue at 7.2 cents per share to eligible shareholders of ordinary shares. The offer was 100% underwritten by several major shareholders and raised $992,980 before capital raising costs. This raising was managed internally however underwriting fees of 4% of the amount underwritten will be paid to the relevant parties. There will also be additional costs for legal advice and Company Secretary fees, as well as charges from Computershare and ASX.

A total of 13,791,383 shares were issued through this capital raising, taking the total shares on issue for the Company on conclusion of the raising up to 96,537,291 shares.

The allotment and issue of the new shares were made on 6th September.

Share Based Payment Reserve

	Note	**2012**	2011
		$000	$000
Balance at 1 July		**350**	327
Share based payments	4	**-**	23
Balance at 30 June		**350**	350

20 Financial Instruments

Effective interest rates and repricing analysis

In respect of income-earning financial assets and interest-bearing financial liabilities, the following table indicates their effective interest rates at the 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
2012							
Cash and cash equivalents	3.50	**1,021**	1,021	-	-	-	-
2011							
Cash and cash equivalents	4.75	**5,657**	5,657	-	-	-	-

Fair values

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

	Note	Carrying amount 2012 $000	Fair value 2012 $000	Carrying amount 2011 $000	Fair value 2011 $000
Trade and other receivables	10	**94**	**94**	135	135
Cash and cash equivalents	9	**1,021**	**1,021**	5,657	5,657
Trade and other payables	17	**(110)**	**(110)**	(840)	(840)
		1,005	**1,005**	4,952	4,952

21 Lease and exploration expenditure commitments

	2012 $000	2011 $000
Non-cancellable operating leases		
Contracted but not provided for and payable:		
Within one year	**72**	92
One year or later and not later than five years	**113**	-
Later than five years	**-**	-
	185	92

21 Lease and exploration expenditure commitments (continued)

The 2012 non-cancellable operating leases are for the Sydney office, together with commitments for the office photocopier and Grassy telephone/internet connection. The lessee in each case is Scheelite Management Pty Ltd.

The Sydney office lease is for a three year term expiring 30th April 2015, with an option to renew for a further three years. The office photocopier is an extension of one year to the previous lease, expiring 30th April 2013 and the Grassy telephone/internet connection is on contract with Telstra until 20th March 2014.

Exploration expenditure commitments

In order to maintain current rights of tenure to exploration tenements, the Group is required to perform minimum exploration work to meet the minimum expenditure requirements specified by 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:

	2012	2011
	$000	$000
Within one year	**156**	45
One year or later and not later than five years	**-**	-
Later than five years	**-**	-
	156	45

22 Consolidated entities

	Country of incorporation	Ownership interest **2012** **%**	Ownership interest 2011 %
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**	100
Balfour Minerals Pty Ltd	Australia	**100**	100

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

23 Reconciliation of cash flows from operating activities

	2012 $000	2011 $000
Cash flows from operating activities		
Net profit / (loss) attributable to members of the parent	**(557)**	604
Adjustments for:		
Write off HNC loan payable on termination of DJV	**-**	(1,916)
Reverse capitalised interest on termination of DJV	**-**	168
Profit on asset revaluations on termination of DJV	**-**	(27)
Share issue to Pacific Road as advisory payment	**280**	-
Depreciation and impairment	**11**	9
Interest capitalised	**-**	-
Employee options granted and expensed	**-**	23
Operating loss before changes in working capital and provisions	**(266)**	(1,139)
(Increase) / Decrease in receivables	**41**	(82)
Increase / (Decrease) in payables	**(444)**	808
Increase in provisions	**10**	8
Decrease in deferred tax liability	**(239)**	(63)
Net cash used in operating activities	**(898)**	(468)

24 Share-based payments

During the financial year, and during the previous financial year, there were no options granted or shares issued on the exercise of options.

The following options were granted on 21st January 2009 to the Chief Executive Officer and outstanding at 30 June 2012:

(a) 1,000,000 options (Tranche 1 Options) vesting on 1st 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 1st 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 1st 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 31st December 2013.

Employee options expenses for the year ended 30th June 2012 totalled $Nil (2011 $23,000) 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:

24 Share-based payments (continued)

	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%

25 Key management personnel disclosures

Individual directors and executive compensation disclosures

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

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

Compensation for Key Management Personnel

	2012 **$**	2011 $
Salaries and fees	**449,762**	461,474
Cash bonus	**-**	50,000
Non monetary benefit	**5,940**	3,670
	455,702	515,144
Post employment superannuation benefits	**28,854**	32,136
Termination benefit	**-**	-
Share based payment	**-**	22,500
	484,556	569,780

25 Key management personnel disclosures (continued)

Movements in securities

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

Key Management Person	Securities	Balance of securities at the start of the year or date of appointment, as applicable	On market purchase / (sale)	Participation in rights issue (including sub-underwriting)	Balance of securities at the end of the year or date of ceasing, as applicable
Year ended 30 June 2012					
Anthony Haggarty	Fully paid ordinary shares	7,534,759	-	-	7,534,759
Robin Morritt	Fully paid ordinary shares	13,525,858	-	-	13,525,858
Andrew Plummer	Fully paid ordinary shares	3,802,299	-	-	3,802,299
Li Li		-	-	-	-
Fang Wu		-	-	-	-
Chen Yao		-	-	-	-
Simon Bird	Fully paid ordinary shares	450,000	-	-	450,000
Simon Bird	Options	4,500,000	-	-	4,500,000
Year ended 30 June 2011					
Anthony Haggarty	Fully paid ordinary shares	4,036,589	1,850,000	1,648,170	7,534,759
Robin Morritt	Fully paid ordinary shares	13,555,000	(29,142)	-	13,525,858
Andrew Plummer	Fully paid ordinary shares	884,146	1,850,000	1,068,153	3,802,299
Li Li		-	-	-	-
Fang Wu		-	-	-	-
Zeng Shao Xiong		-	-	-	-
Fan Xue Qiang		-	-	-	-
Simon Bird	Fully paid ordinary shares	-	450,000	-	450,000
Simon Bird	Options	4,500,000	-	-	4,500,000

The terms and conditions of the options granted are outlined in Note 24 to the accounts.

25 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:

	2012	2011
	$	$
Accounts Payable - current		
Robin Morritt	-	594
Li Li	7,194	-

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 previous financial years, 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:

	2012	2011
	$	$
Consulting fees	-	3,250
	-	3,250

26 Non key management personnel disclosures

Identity of related parties

The Group has a related party relationship with its subsidiaries (see Note 22), an associate and joint ventures (see Note 12), and with its directors and executive officers (see Note 25).

26 Non key management personnel disclosures (continued)

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 Group at the reporting date:

	The Company	
	2012	2011
	$000	$000
Receivables		
Non Current	**21**	21
Payables		
Current	**2,083**	2,083

Partly owned controlled entities

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

27 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.

27 Financial Risk Management (continued)

Credit Risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Group's receivables from customers and investment securities. For the Company it arises from receivables due from subsidiaries.
Presently, the Group undertakes exploration and evaluation activities exclusively in Australia. At the 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 significant trade receivables and therefore is not exposed to credit risk in relation to trade receivables.
As it has been estimated that there are no incurred losses, the Company and Group have not established an allowance for impairment in respect of other receivables and investments. The management does not expect any counterparty to fail to meet its obligations.

Exposure to credit risk

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

	Note	Carrying Amount	
		2012	2011
		$000	$000
Current			
Cash and cash equivalents	9	**1,021**	5,657
Other receivables	10	**10**	45
Prepayments	10	**69**	75
Non current deposits	10	**15**	15

Impairment losses

None of the Group's other receivables are past due (2011: nil).

27 Financial Risk Management (continued)

Liquidity risk

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

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

The 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 2012							
Trade payables	61	61	61	-	-	-	-
Other trade payables and accrued expenses	49	49	49	-	-	-	-
30 June 2011							
Trade payables	335	335	335	-	-	-	-
Other trade payables and accrued expenses	505	505	505	-	-	-	-

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.

27 Financial Risk Management (continued)

Interest rate risk

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

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

Profile

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

	Carrying amount	
	2012	2011
	$000	$000
Fixed rate instruments		
Financial assets	**-**	-
Financial liabilities	**-**	-
	-	-
Variable rate instruments		
Financial assets	**1,021**	5,657
	1,021	5,657

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.

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.

27 Financial Risk Management (continued)

Capital and Reserves Management

The Group's objectives when managing capital and reserves (see Note 19) 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.

28 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 Project 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 wholly liable after termination of the DJV). In addition a royalty of 1.5% (Australian Tungsten Pty Ltd wholly liable after termination of the DJV) of gross revenue is also payable contingent on successful extraction of tungsten ore or concentrate.

Adjoining Land

On 12th 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 30th 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.

The Dolphin Project is still committed to pay the third party vendor an additional $100,000 upon the commencement of operations.

28 Contingencies (continued)

Hunan Nonferrous Metals Corporation Ltd

Commencing 17th December 2010 and under the agreed terms relating to termination of the Dolphin Joint Venture, Australian Tungsten Pty Ltd has a liability to Hunan Nonferrous Metals Corporation Ltd which is contingent on the successful extraction of tungsten ore or concentrate from the Dolphin Project on King Island.

The amount payable is a 2% royalty on gross revenue, and the maximum royalty amount payable is $3,900,000.

Pacific Road Corporate Finance

On 2nd February 2012, the Company engaged Pacific Road Corporate Finance to provide certain corporate advice, including reviewing strategic alternatives and identifying funding sources.

The Company agreed to Pacific Road charging a monthly retainer fee of $25,000 (plus GST) for a six month term and is extendible by mutual agreement. At 30th June 2012, the Company's retainer fee commitment totalled $25,000 (2011 $100,000).

A Transaction fee is also payable, however with the current agreement expiring at the end of July 2012 and notice to terminate given to Pacific Road, after 31st July 2012 no further retainer amounts will be paid and details regarding any Transaction Fee should a Transaction occur in the next twelve months are yet to be negotiated between the Company and Pacific Road.

King Island Council

On 1st July 2011, the Company entered into two agreements with King Island Council that have since been registered under Part 5 of the Land Use Planning Approvals Act 1993 (TAS).

The first of these agreements provides that the Company shall pay an amount of $50,000 inclusive of GST in each financial year of the operational life of the mine to a Trust Fund, mainly for the purpose of upgrading and developing the community facilities in Grassy and the areas surrounding Grassy.

The second of these agreements provides that the Company shall pay an amount of $50,000 inclusive of GST in each financial year of the operational life of the mine to the King Island Council for the upgrading and improvement of the infrastructure at Grassy.

Also as part of these agreements, the Company paid the first instalments of these in advance, a total of $100,000 inclusive of GST, on 1st July 2011. These advances are to be deducted from future payments over five years at the rate of $10,000 inclusive of GST per annum each and future payments will commence on the date upon which the mining of ore commences.

29 Parent entity disclosures

As at, and throughout, the financial year ending 30 June 2012 the parent company of the Group was King Island Scheelite Limited.

	2012 $000	2011 $000
Results of the parent entity		
Loss for the period	**(784)**	(769)
Other comprehensive income	**-**	-
Total comprehensive income for the period	**(784)**	(769)
Financial position of parent entity at year end		
Current assets	**4,656**	6,231
Non-current assets	**29,392**	29,079
Total assets	**34,048**	35,310
Current liabilities	**2,201**	2,570
Total liabilities	**2,201**	2,570
Net Assets	**31,847**	32,740
Total equity of the parent entity comprising of:		
Share capital	**48,842**	48,562
Share Option Reserve	**350**	350
Accumulated Losses	**(17,345)**	(16,172)
Total Equity	**31,847**	32,740

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

	2012 $000	2011 $000
Property		
Contracted but not yet provided for and payable:	**-**	100
Within one year	**-**	100
One year later and no later than five years	**-**	-
Later than five years	**-**	-
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	**-**	-

29 Parent entity disclosures (continued)

Contingencies

Adjoining Land

On 12th 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.

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Pacific Road Corporate Finance

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A Transaction fee is also payable, however with the current agreement expiring at the end of July 2012 and notice to terminate given to Pacific Road, after 31st July 2012 no further retainer amounts will be paid and details regarding any Transaction Fee should a Transaction occur in the next twelve months are yet to be negotiated between the Company and Pacific Road.

30 Subsequent events

Since the reporting date, three events have been announced to the Australian Securities Exchange.

1. A review of the Company's business was announced as a result of the decline in financial market conditions and the delay in securing funding for the Dolphin Project. The objective of this review is to reduce overhead costs and conserve cash during the interim period until funding can be sourced.
2. On 31st August 2012 the Company closed a capital raising through a 1:6 renounceable rights issue to eligible shareholders of ordinary shares. This offer was underwritten and raised $992,980 before capital raising costs, the proceeds of which will be used to fund working capital for at least the next twelve months while the Company progresses development funding for the Dolphin Project.
3. On 16th August 2012, Non-Executive Director Mr Li Li and his alternate, Ms Fang Wu, resigned from the Board of Directors of the Company.

Other than the aforementioned announcements, 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 Group, the results of those operations, or the state of affairs of the Group, in future financial years.

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 26 to 62 and the Remuneration Report in the Directors' report, set out on pages 7 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 30th June 2012 and of its performance for the financial year ended on that date; and

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

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

2 The directors have been given the declarations required by Section 295A of the Corporations Act 2001 from the Chief Executive Officer and Company Secretary for the financial year ended 30th June 2012.

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

17th September 2012

KPMG

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

To: the directors of King Island Scheelite Limited

I declare that, to the best of my knowledge and belief, in relation to the audit for the financial year ended 30 June 2012 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

17 September 2012

KPMG

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

Report on the financial report

We have audited the accompanying financial report of King Island Scheelite Limited (the company), which comprises the consolidated statement of financial position as at 30 June 2012, and consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year ended on that date, notes 1 to 30 comprising a summary of significant accounting policies and other explanatory information and the directors' declaration of the Group comprising the company and the entities it controlled at the year's end or from time to time during the financial year.

Directors' responsibility for the financial report

The directors of the company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that is free from material misstatement whether due to fraud or error. In note 1, the directors also state, in accordance with Australian Accounting Standard AASB 101 *Presentation of Financial Statements*, that the financial statements of the Group comply 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 of the financial report that gives a true and fair view 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, a true and fair 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.

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 2012 and of its performance for the year ended on that date; and

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

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

Material uncertainty regarding continuation as a going concern

Without qualifying our opinion, we draw attention to note 2 in the financial report which indicates that the financial report has been prepared on a going concern basis which assumes the realisation of assets and the settlement of liabilities in the normal course of business. In note 2, the directors state why they consider the going concern basis used in the preparation of the financial report is appropriate. As disclosed in that note, the assumption of the going concern basis is dependent on future share issues, debt raisings, joint venturing or entering into off-take agreements for the sale of tungsten. This indicates the existence of a material uncertainty as to whether the Group will be able to continue as a going concern.

Report on the remuneration report

We have audited the Remuneration Report included in the directors' report for the year ended 30 June 2012. 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 2012, complies with Section 300A of the *Corporations Act 2001*.

KPMG

KPMG

Shane O'Connor
Partner

Sydney
17 September 2012

Shareholder Information

At 7th September 2012 issued capital was 96,537,291 ordinary fully paid shares held by 945 holders.

At a general meeting on a show of hands, each shareholder present in person or by proxy has one vote and on a poll each shareholder present in person or by proxy has:
(i) one vote for each fully paid share held; and
(ii) for each share which is not fully paid a fraction of a vote equivalent to the proportion which the amount paid up, but not credited as paid up, on that share bears to the total of the amounts paid and payable (excluding amounts credited) on that share.

20 Largest Holders of Ordinary Shares and their Holdings at 7th September 2012

Rank	Name	Shares	% of Shares
1.	CATHERINE MORRITT	13,579,858	14.1%
2.	HFTT PTY LTD <HAGGARTY FAMILY A/C>	9,584,319	9.9%
3.	MR RICHARD WILLMOT CHADWICK + MRS GWENDA ANN CHADWICK	8,088,902	8.4%
4.	CHRYSALIS INVESTMENTS PTY LTD	5,489,905	5.7%
5.	HUNAN NONFERROUS METALS CORPORATION LIMITED	4,450,000	4.6%
6.	RANAMOK PTY LTD <RANAMOK FAMILY A/C>	4,057,360	4.2%
7.	PACIFIC ROAD PROVIDENT PTY LTD	2,581,548	2.7%
8.	SERLETT PTY LTD <DILIGENT SUPER FUND A/C>	2,304,542	2.4%
9.	MR SCOTT GILCHRIST	2,268,755	2.4%
10.	MR GIUSEPPE CORONICA	2,104,168	2.2%
11.	BUDBERTH PTY LTD <IPSEITY S/F A/C>	2,100,000	2.2%
12.	INVIA CUSTODIAN PTY LIMITED <DAVIES FAMILY A/C>	2,062,405	2.1%
13.	MR DONALD BOYD	1,312,500	1.4%
14.	BWS PTY LIMITED	1,166,667	1.2%
15.	ALFRED STREET FUNDS MANAGEMENT PTY LTD	1,087,984	1.1%
16.	MR ANDREW HENDERSON PLUMMER	1,085,214	1.1%
17.	JP MORGAN NOMINEES AUSTRALIA LIMITED <CASH INCOME A/C>	1,025,087	1.1%
18.	HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED	950,158	1.0%
19.	MR ROBERT SLADE FORBES	895,358	0.9%
20.	HOLTEX PTY LTD <BUCKERIDGE S/F A/C>	888,347	0.9%
Top 20 holders of ORDINARY SHARES (TOTAL)		**67,083,077**	**69.6%**

Distribution of Holders and Holdings at 7th September 2012

Range	Total holders	Units	% of Issued Capital
1 - 1,000	321	64,729	0.1%
1,001 - 5,000	164	511,170	0.5%
5,001 - 10,000	92	723,641	0.7%
10,001 - 100,000	275	9,861,418	10.2%
100,001 - 9,999,999,999	93	85,376,333	88.4%
Rounding	-	-	0.1%
Total	**945**	**96,537,291**	**100.0%**

Unmarketable Parcels at 7th September 2012

	Minimum Parcel Size	Holders	Shares
Minimum $ 500.00 parcel at $ 0.08 per share	6,250	508	704,179

Shareholder Information (continued)

Substantial shareholders at 7th September 2012

	Number of Shares	Proportion of Issued Shares
Catherine Morritt	13, 579,858	14.1%
HFTT Pty Ltd <Haggarty Family A/C>	9,584,319	9.9%
Mr Richard Willmot Chadwick + Mrs Gwenda Ann Chadwick	8,088,902	8.4%
Chrysalis Investments Pty Ltd	5,489,905	5.7%
Ranamok Pty Ltd	5,170,590	5.4%

Unquoted Securities

On 16th 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 1st 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 1st 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 1st 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 31st 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)	100%
Exploration Licence EL19/2001 at Grassy, King Island (91 sq kms)	100%
Exploration Licence EL16/2002 at Grassy, King Island (18 sq kms)	100%
Mining Lease 1M/2006 at Grassy, King Island (544 hectares)	100%
Exploration Licence EL27/2007 at Balfour, Tasmania	70%
Exploration Licence EL40/2007 at Frankland River - Mt Lily, Tasmania	70%

Securities Exchange Listing

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

Shareholder Information (continued)

Share Registrar

Computershare Investor Services Pty Ltd
Yarra Falls
452 Johnston Street
Abbotsford VIC 3067

GPO Box 2975EE
Melbourne VIC 3000

Telephone: +61 (0)3 9415 5000 (main switchboard)
+61 (0)3 9415 4000 (investors)
1300 850 505 (investors within Australia)

Facsimile: +61 (0)3 9473 2500
(all investor related faxes should be sent to this number)

Web site:
http://www-au.computershare.com

Registered Office

Level 1, 101 Sussex Street
Sydney NSW 2000

GPO Box 5154
Sydney NSW 2001

Principal Place of Business

Level 1, 101 Sussex Street
Sydney NSW 2000

GPO Box 5154
Sydney NSW 2001

Telephone: (02) 8622 1400
Facsimile: (02) 8622 1401

Email: info@kingislandscheelite.com.au

Web site:
http://www.kingislandscheelite.com.au

Auditor

KPMG
10 Shelley Street
Sydney NSW 2000

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

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

On-Market Buy Back

There is no on-market buy-back.