
King Island Scheelite Limited

ABN 40 004 681 734

Annual Report

For the year ended 30 June 2016

CORPORATE DIRECTORY

DIRECTORS

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

PROJECT MANAGER

ALVIN JOHNS

COMPANY SECRETARY AND CHIEF FINANCIAL OFFICER

IAN MORGAN

FINANCIAL CONTROLLER

SUE JOLLIFFE

REGISTERED OFFICE & PRINCIPAL PLACE OF BUSINESS

SUITE 26.01
LEVEL 26, 259 GEORGE STREET
GPO BOX 5154
SYDNEY NSW
TELEPHONE: +61 2 8622 1400
FACSIMILE: +61 2 8622 1401
WEB SITE: www.kingislandscheelite.com.au
EMAIL: info@kisltd.com.au

AUDITOR

KPMG
TOWER THREE
INTERNATIONAL TOWERS
300 BARANGAROO AVENUE
SYDNEY NSW
TELEPHONE: +61 2 9335 7000
FACSIMILE: +61 2 9335 7001
WEB SITE: www.kpmg.com.au

SHARE REGISTRY

COMPUTERSHARE INVESTOR SERVICES PTY LTD
YARRA FALLS
452 JOHNSTON STREET
ABBOTSFORD VIC 3067
TELEPHONE:
+61 3 9415 5000 (main switchboard)
+61 3 9415 4000 (investors)
1300 850 505 (investors within Australia)
FACSIMILE: +61 3 9473 2500
WEB SITE: www-au.computershare.com

ASX

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

TABLE OF CONTENTS

| | |
|---|----|
| CORPORATE DIRECTORY | 2 |
| TABLE OF CONTENTS | 3 |
| DIRECTORS' REPORT | 4 |
| CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME | 18 |
| CONSOLIDATED STATEMENT OF FINANCIAL POSITION | 19 |
| CONSOLIDATED STATEMENT OF CHANGES IN EQUITY | 20 |
| CONSOLIDATED STATEMENT OF CASH FLOWS..... | 21 |
| NOTES TO THE FINANCIAL STATEMENTS..... | 22 |
| DIRECTORS' DECLARATION..... | 41 |
| AUDITOR'S INDEPENDENCE DECLARATION | 42 |
| INDEPENDENT AUDITOR'S REPORT | 43 |
| ADDITIONAL SHAREHOLDER INFORMATION | 45 |

DIRECTORS' REPORT

The directors present their report, together with the financial statements, of the consolidated entity (referred to hereafter as the 'consolidated entity' or the 'Group') consisting of King Island Scheelite Limited (referred to hereafter as the 'Company' or 'parent entity') and the entities it controlled at the end of, or during, the year ended 30 June 2016.

DIRECTORS

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

Johann Jacobs (Executive Chairman)

B.Acc, MBL, FCA, FAICD

Appointed 30 November 2012

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

Christopher Ellis (Executive Director)

B.Sc Hons

Appointed 8 November 2012

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

Allan Davies (Independent Non-Executive Director)

B.E (Mining)

Appointed 30 September 2013

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

COMPANY SECRETARY

Ian Morgan

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

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

DIRECTORS' REPORT CONTINUED

NATURE OF OPERATIONS AND PRINCIPAL ACTIVITIES

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

DIVIDENDS

There were no dividends paid or declared by the Company to members during or since the end of the financial year (2015 \$Nil).

REVIEW OF OPERATIONS

During the year ended 30 June 2016, the Company continued optimising its Revised Definitive Feasibility Study for the development of an open cut mine at Dolphin together with its associated infrastructure (**RDFS**).

Resources and Reserves

As announced on 21 September 2015 and 20 October 2015, the Company's Updated Reserve Statement indicated the following.

- Probable Reserves of 3.14 Mt at 0.73% WO₃ (at 0.2% WO₃ cut-off) for a total of 22,900 tonnes of WO₃.
- Compares to previously reported Probable Reserves of 1.90 Mt at 0.55% WO₃ (at 0.2% WO₃ cut-off) for a total of 10,450 tonnes of WO₃.
- An average strip ratio of 9.7:1 tonne for tonne¹ (previously 3.1 tonne for tonne).
- This will support an open-cut mine life of 8 to 9 years (previously 4 to 5 years).

Total Indicated Resources for Dolphin remain 9.60 Mt at 0.90% WO₃ (at 0.2% WO₃ cut-off) for 86,400 tonnes of WO₃.

Lease & Licence Boundaries

The Company received confirmation from Mineral Resources Tasmania (**MRT**) that the lease and licence boundaries have been adjusted to close any gaps after the relinquishment of tenements EL16/2002 and RL2/1998, which followed a rationalisation of tenement holdings.

Environmental Approvals

The Company has been in discussions with the Environmental Protection Agency (**EPA**) and King Island Council (**KIC**) with regards to amending the previously granted approvals, to ensure they are consistent with the operations envisaged in the RDFS.

After detailed discussions with KIC, they advised that "it is Council's opinion the amendments discussed, and demonstrated in your plans, are adequately covered by the conditions contained in the existing planning permit (DA 26/0506) and the proposal does not generate any requirements for a new planning permit."

Additional studies are currently being undertaken to ensure that the Environmental Effects Report to be submitted to EPA incorporates the most up to date data. It is anticipated that this report will be submitted during the current quarter ended September 2016, with approvals being granted prior to 31 December 2016.

Revised Definitive Feasibility Study (RDFS)

Substantial work was done on the RDFS, including the consolidation of recent studies and incorporation of the latest reserve statement information.

The work required to finalise the RDFS can only be completed when the necessary changes to the environmental approvals have been obtained.

¹ One tonne of ore requires mining 9.7 tonnes of waste rock.

DIRECTORS' REPORT CONTINUED

Site Activity

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



CORPORATE

Financial

The Group incurred an operating loss after tax for the year to 30 June 2016 of \$1,268,215 (2015 \$3,289,362).

The Group retained a cash balance of \$1,274,849 at 30 June 2016 (2015 \$1,567,911).

Issue of Unsecured Redeemable Convertible Notes

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

Tranche 1 for A\$1,000,000 was drawn during December 2015 by the Company, with Tranche 2 for a further A\$1,000,000 (if required) available to be drawn up to the maturity date of 31 December 2016, or on repayment - whichever is earlier.

Principal terms of the Convertible Notes are:

- Face value of A\$500,000 each
- Interest rate of 8% per annum
- Unsecured
- Maturing 31 December 2016
- Conversion or repayment at the Company's sole discretion.

DIRECTORS' REPORT CONTINUED

As required by ASX Listing Rules, the Company would request shareholder approval at a General Meeting prior to any conversion. For further details see Note A6.

TUNGSTEN MARKET

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

Over the last decade, the APT price achieved a high of US\$46,900 (A\$47,300) per tonne, in mid-2011 and again in mid-2013, however since then the price has declined to a low of US\$16,500 (A\$21,200) per tonne at the end of calendar 2015. Prices firmed during the June 2016 quarter however those were short lived as, in recent weeks, the prices have again softened to a current price of US\$19,000 (A\$25,800) per tonne.

During the 2015 financial year APT prices ranged from US\$36,800 (A\$41,100) per tonne in the early part of the year to US\$23,050 (A\$30,000) per tonne at the end of the year. This compares to a trading range during financial year 2016 of a high of US\$21,800 (A\$29,800) per tonne and a low of US\$16,500 (A\$23,000) per tonne. (Note: All prices are quoted as monthly average prices.)

Although these prices are all above our anticipated production costs, financing the project – both debt and equity – would be extremely difficult and risky. The major impact on the market has been from the drop in specialty steel demand.

OUTLOOK

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

Next steps are:

- 1) Update environment and development approvals.
- 2) Finalise the Definitive Feasibility Study and Information Memorandum.
- 3) Secure off-take arrangements.
- 4) Once the above actions have been completed, the Board will consider project approval and, if approved, will initiate project funding.
- 5) Engage with potential project financiers/ partners.

GOING CONCERN

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

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

DIRECTORS' REPORT CONTINUED

BUSINESS RISKS

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

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

EVENTS SUBSEQUENT TO THE REPORTING DATE

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

ENVIRONMENTAL REGULATION

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

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

² Exploration Licence EL19/2001 at Grassy, King Island (91 sq kms) expires 14 December 2016. Mining Lease 1M/2006 at Grassy, King Island (544 hectares) expires 5 June 2029.

DIRECTORS' REPORT CONTINUED

DIRECTORS' MEETINGS

The numbers of Directors' meetings (including meetings of committees of Directors) 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 |
| Johann Jacobs | 9 | 9 | 2 | 2 |
| Allan Davies | 9 | 9 | 2 | 2 |
| Christopher Ellis | 9 | 8 | 2 | 2 |

DIRECTORS' INTERESTS

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

| <i>King Island Scheelite Limited Ordinary fully paid shares</i> | Number |
|---|---------------|
| Johann Jacobs | 2,487,871 |
| Christopher Ellis | 26,078,220 |
| Allan Davies | 3,543,587 |

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

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

DIRECTORS' REPORT CONTINUED

REMUNERATION REPORT (AUDITED)

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

Key management personnel have authority and responsibility for planning, directing and controlling the activities of the Company and the Group, including Directors of the Company and other future executives. Key management personnel comprise the Directors and Managers of the Company.

Compensation levels for key management personnel of the Group are competitively set to attract and retain appropriately qualified and experienced Directors, executives and future executives. There were no remuneration consultants used to set the remuneration of key management personnel.

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

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

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

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

Contract Terms and Conditions

The determination of Directors' remuneration is made by the Board having regard to the inputs and value to the Company of the respective contributions by each Director.

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

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

- Executive remuneration and incentive policy.
- The remuneration of executive Directors, the Company Secretary and all senior executives reporting directly to an executive Director.
- Any executive incentive plan and any equity based incentive plan.
- The remuneration of Directors.
- Superannuation arrangements.
- Recruitment, retention, performance measurement and termination policies and procedures for non-executive Directors, executive Directors, the Company Secretary and all senior executives reporting directly to an executive Director.
- The disclosure of remuneration in the Company's public materials including ASX filings and the Annual Financial Report.

DIRECTORS' REPORT CONTINUED

Directors may receive performance-based remuneration. During the year ended 30 June 2014, a total of 9,000,000 unquoted options were granted to Directors. Refer to Note C2 for more details. No bonuses were paid in respect of the current or previous financial years.

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

Terms of Employment

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

Johann Jacobs (Chairman)

During the financial year ended 30 June 2016, an entity controlled by Mr Jacobs was paid at the rate of \$30,987 p.a. plus 9.5% statutory superannuation (2015 \$30,987 p.a. plus 9.5% statutory superannuation) for Mr Jacobs to be a Director and Chairman. Consultancy services to the Company are also agreed with the entity controlled by Mr Jacobs, for his services to be provided as required and charged on a per diem basis. No annual or long service leave accrues to Mr Jacobs or his controlled entity.

Christopher Ellis (Executive Director)

During the financial year ended 30 June 2016, Mr Ellis was paid at the rate of \$26,400 p.a. plus 9.5% statutory superannuation (2015 \$26,400 p.a. plus 9.5% statutory superannuation) to be a Director. Consultancy services to the Company are also agreed with the entity controlled by Mr Ellis, for his services to be provided as required and charged on a per diem basis. No annual or long service leave accrues to Mr Ellis or his controlled entity. During the financial year ended 30 June 2016, Mr Ellis did not charge for consulting services (2015 \$Nil).

Allan Davies (Non-Executive Director)

During the financial year ended 30 June 2016, an entity controlled by Mr Davies was paid at the rate of \$26,400 p.a. plus 9.5% statutory superannuation (2015 \$26,400 p.a. plus 9.5% statutory superannuation) for Mr Davies to be a Non-Executive Director. Consultancy services to the Company are also agreed with the entity controlled by Mr Davies, for his services to be provided as required and charged on a per diem basis. No annual or long service leave accrues to Mr Davies or his controlled entity.

Consulting Services

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

| | |
|-------------------------------|--|
| <i>Performance</i> | Any consulting services are to be performed in a competent and professional manner with the standard of diligence and care normally employed by a properly qualified person in the performance of comparable duties and in accordance with generally accepted practices appropriate to the activities undertaken. |
| <i>Exclusivity</i> | Nothing prevents the entity each Director controls from providing or agreeing to provide to any other person, firm or company services the same as or similar to the consulting services, provided that the provision of such services does not in any way impair or hinder the performance of duties to the Company. |
| <i>Consultancy Fee Rates</i> | <p>The Company pay the entity controlled by Mr Jacobs at the rate of \$2,100 per day, excluding GST.</p> <p>The Company pay the entity controlled by Mr Davies at the rate of \$2,000 per day excluding GST.</p> <p>The Company would pay the entity controlled by Mr Ellis at the rate of \$2,000 per day excluding GST.</p> |
| <i>Consultancy Fee Review</i> | The Consultancy Fee shall be reviewed no later than one month after the end of each financial year or after such other period (being less than one year) agreed between the parties. In determining the amount of any increase in the Consultancy Fee, the Board (or any committee appointed by the Board to undertake the review) |

DIRECTORS' REPORT CONTINUED

| | |
|--|--|
| | shall take into account performance in the period under review, the level of remuneration of executives in an equivalent position and any other factors which it considers relevant. |
| <i>Independent Contractor</i> | The entity each Director controls is an independent contractor and is not and shall not hold itself out as an employee or partner of the Company. |
| <i>Employment Status</i> | Each Director shall at all times be an employee of the entity which the Director controls and shall not hold himself out as an employee of the Company. |
| <i>Employment Costs and Entitlements</i> | The entity controlled by each Director agrees that it shall be solely responsible for the payment of salaries and wages, holiday pay, sick pay, long service leave, any worker's compensation premiums or entitlements and all other employee benefits and entitlements (including, without limitation, superannuation contributions) to or on each Director's behalf, and for the making of all tax instalment deductions in respect of his remuneration, together with the payment of any other tax or levy which may arise out of the performance of consulting services. |

Options Issued to Directors or Executives

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

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

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

Expected volatility is estimated by taking into account historic average share price volatility. The expense for the year ending 30 June 2016 totals \$65,886 (2015 \$223,860).

Options were granted at no cost to the recipient.

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

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.

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 1 July 2011.

DIRECTORS' REPORT CONTINUED

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

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

Consequences of Performance on Shareholders' Wealth

| | 2016 | 2015 | 2014 |
|---|--------------------|--------------|--------------|
| Loss for the financial year attributable to owners of the Company | \$1,268,215 | \$3,289,362 | \$2,029,842 |
| Working capital at 30 June | \$176,603 | \$1,366,425 | \$938,614 |
| Net assets at 30 June | \$1,342,860 | \$2,545,531 | \$1,969,151 |
| Number of Shares on issue at 30 June | 165,251,702 | 165,251,702 | 135,152,403 |
| Share price at 30 June (cents per Share) | 5.3 | 11.0 | 14.0 |
| Market capitalisation at 30 June | \$8,758,340 | \$18,177,687 | \$18,921,336 |
| Loss on capital employed for the financial year | (94%) | (129%) | (103%) |
| Termination benefits of key management persons | - | - | \$194,484 |
| Options benefits of key management persons | \$65,886 | \$223,860 | \$315,554 |
| Other compensation of key management persons | \$218,847 | \$361,497 | \$326,046 |
| Total compensation of key management persons (Group and Company) for the financial year | \$284,733 | \$585,357 | \$836,084 |

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

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

Funds have been raised during the course of the last few years, with the latest funds provided by two major shareholders in return for unsecured convertible notes, recorded as debt in the Group's accounts. For further details see Note A6.

Total compensation takes into account the performance of the Group over a number of years. Over the past three years, the Group's loss from ordinary activity after income tax has varied mainly depending upon the level of exploration and evaluation work being done during the financial year.

DIRECTORS' REPORT CONTINUED

REMUNERATION FOR THE YEAR ENDED 30 JUNE 2016

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

| | | Short-term | | | | Post-employment | Other long term | Termination benefits | Share-based payments Options | Total | Proportion of remuneration performance related | Value of options as proportion of remuneration | |
|--|------|---------------|-----------------|------------|-----------------------|-----------------|-------------------------|----------------------|------------------------------|---------|--|--|-------|
| | | Salary & fees | Consulting fees | Cash bonus | Non-monetary benefits | Total | Superannuation benefits | | | | | | |
| | | \$ | \$ | \$ | \$ | \$ | \$ | \$ | \$ | \$ | | % | |
| Directors | | | | | | | | | | | | | |
| J Jacobs | 2016 | 30,987 | 122,100 | - | - | 153,087 | 2,944 | - | - | 32,943 | 188,974 | - | 17.4% |
| | 2015 | 30,987 | 241,500 | - | - | 272,487 | 2,944 | - | - | 111,930 | 387,361 | - | 28.9% |
| C Ellis | 2016 | 26,400 | - | - | - | 26,400 | 2,508 | - | - | - | 28,908 | - | - |
| | 2015 | 26,400 | - | - | - | 26,400 | 2,508 | - | - | - | 28,908 | - | - |
| A Davies | 2016 | 26,400 | 5,000 | - | - | 31,400 | 2,508 | - | - | 32,943 | 66,851 | - | 49.3% |
| | 2015 | 26,400 | 28,250 | - | - | 54,650 | 2,508 | - | - | 111,930 | 169,088 | - | 66.2% |
| Total compensation (The Group and Company) | 2016 | 83,787 | 127,100 | - | - | 210,887 | 7,960 | - | - | 65,886 | 284,733 | - | 23.1% |
| | 2015 | 83,787 | 269,750 | - | - | 353,537 | 7,960 | - | - | 223,860 | 585,357 | - | 38.2% |

END OF REMUNERATION REPORT (AUDITED)

DIRECTORS' REPORT CONTINUED

SHARES UNDER OPTION

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

| Person | Grant Date | Fair value per option at grant date \$ | Exercise price per option \$ | Expiry date | Number of options | Number of vested options | |
|----------|------------|---|---------------------------------|-------------|-------------------|--------------------------|-----------|
| | | | | | | 2016 | 2015 |
| J Jacobs | 6 Dec 2013 | 6.84 cents | 15 cents | 31 Dec 2018 | 1,000,000 | 1,000,000 | 1,000,000 |
| | 6 Dec 2013 | 6.63 cents | 22 cents | 31 Dec 2019 | 1,500,000 | 1,500,000 | 1,500,000 |
| | 6 Dec 2013 | 6.74 cents | 28 cents | 31 Dec 2020 | 2,000,000 | 2,000,000 | - |
| | | | | | 4,500,000 | 4,500,000 | 2,500,000 |
| A Davies | 6 Dec 2013 | 6.84 cents | 15 cents | 31 Dec 2018 | 1,000,000 | 1,000,000 | 1,000,000 |
| | 6 Dec 2013 | 6.63 cents | 22 cents | 31 Dec 2019 | 1,500,000 | 1,500,000 | 1,500,000 |
| | 6 Dec 2013 | 6.74 cents | 28 cents | 31 Dec 2020 | 2,000,000 | 2,000,000 | - |
| | | | | | 4,500,000 | 4,500,000 | 2,500,000 |

The options were provided at no cost to the recipient.

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

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 named key management persons are detailed below:

| Person | Grant Date | Date at which grant vests | Number | Vested | | Lapsed ³ | |
|----------|------------|---------------------------|------------------|--------------|-----------|---------------------|-----------|
| | | | | 2016 % | 2015 % | 2016 % | 2015 % |
| J Jacobs | 6 Dec 2013 | 1 Jan 2014 | 1,000,000 | 100.0 | 100.0 | - | - |
| | 6 Dec 2013 | 1 Jan 2015 | 1,500,000 | 100.0 | 100.0 | - | - |
| | 6 Dec 2013 | 1 Jan 2016 | 2,000,000 | 100.0 | - | - | - |
| | | | 4,500,000 | 100.0 | 55.6 | - | - |
| A Davies | 6 Dec 2013 | 1 Jan 2014 | 1,000,000 | 100.0 | 100.0 | - | - |
| | 6 Dec 2013 | 1 Jan 2015 | 1,500,000 | 100.0 | 100.0 | - | - |
| | 6 Dec 2013 | 1 Jan 2016 | 2,000,000 | 100.0 | - | - | - |
| | | | 4,500,000 | 100.0 | 55.6 | - | - |

³ The % lapsed in the year represents the reduction from the maximum number of options available to vest due to the options not being exercised and lapsing.

DIRECTORS' REPORT CONTINUED

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

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

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

No options were exercised 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 1 July 2011.

MOVEMENTS IN SECURITIES

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

| Key Management Person | Balance of shares at 1 July or date of appointment, as applicable | On-market purchases | Participation in rights issue (including underwriting) | Balance of shares at 30 June or date of ceasing, as applicable |
|-----------------------------------|---|---------------------|--|--|
| <i>Fully paid ordinary shares</i> | Number | Number | Number | Number |
| Year ended 30 June 2016 | | | | |
| Johann Jacobs | 2,487,871 | - | - | 2,487,871 |
| Christopher Ellis | 26,078,220 | - | - | 26,078,220 |
| Allan Davies | 3,543,587 | - | - | 3,543,587 |
| Year ended 30 June 2015 | | | | |
| Johann Jacobs | 1,421,227 | 265,000 | 801,644 | 2,487,871 |
| Christopher Ellis | 18,472,225 | - | 7,605,995 | 26,078,220 |
| Allan Davies | 2,887,367 | - | 656,220 | 3,543,587 |

| Key Management Person | Number of Options 1 July | Granted during the financial year | Expired during the financial year | Number of Options 30 June |
|--------------------------------|--------------------------|-----------------------------------|-----------------------------------|---------------------------|
| <i>Unquoted Options</i> | | | | |
| Year ended 30 June 2016 | | | | |
| Johann Jacobs | 4,500,000 | - | - | 4,500,000 |
| Allan Davies | 4,500,000 | - | - | 4,500,000 |
| | <u>9,000,000</u> | <u>-</u> | <u>-</u> | <u>9,000,000</u> |
| Year ended 30 June 2015 | | | | |
| Johann Jacobs | 4,500,000 | - | - | 4,500,000 |
| Allan Davies | 4,500,000 | - | - | 4,500,000 |
| | <u>9,000,000</u> | <u>-</u> | <u>-</u> | <u>9,000,000</u> |

DIRECTORS' REPORT CONTINUED

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

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

AUDIT SERVICES

During the year ending 30 June 2016, the Group expensed an amount of \$41,200 (2015: \$45,050) to its auditor, KPMG and its related practices, for audit services provided.

NON-AUDIT SERVICES

The Group's auditor, KPMG, did not provide any other services in addition to their statutory audit duties during the year ending 30 June 2016.

ROUNDING OFF

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

LEAD AUDITOR'S INDEPENDENCE DECLARATION

The lead auditor's independence declaration made under Section 307C of the *Corporations Act 2001 (Cth)* is set out on page 42 and forms part of this Directors' Report.

COMPETENT PERSON'S STATEMENT

Previously Released Information

This Directors' Report refers to information extracted from the following reports, which are available for viewing on the Company's website www.kingislandscheelite.com.au:

- 24 April 2015 Updated Resource Statement.
- 21 September 2015 Updated Reserve Statement
- 20 October 2015 Updated Reserve Statement Released 21 September 2015

The Company confirms it is not aware of any new information or data that materially affects the information included in the original market announcement, and, in the case of estimates of Mineral Resources and Reserves, that all material assumptions and technical parameters underpinning the estimates in the relevant market announcements continue to apply and have not materially changed. The Company confirms that the form and context in which the Competent Person's findings presented have not been materially modified from the original market announcement.

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



Johann Jacobs
Chairman
Sydney
3 August 2016

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

YEAR ENDED 30 JUNE 2016

| | Note | 2016 \$ | 2015 \$ |
|---|------|--------------------|--------------------|
| Other income | A14 | 187,709 | 117,934 |
| Key management personnel expenses | C1 | (285,709) | (585,725) |
| Administrative expenses | | (663,949) | (550,353) |
| Exploration & evaluation expenses ⁴ | | (479,594) | (2,300,090) |
| Results from operating activities | | (1,241,543) | (3,318,234) |
| Financial income – interest | | 17,010 | 28,872 |
| Financial expense – interest | A6 | (43,682) | - |
| Net finance (expense) /income | | (26,672) | 28,872 |
| Net loss attributable to members of the parent | | (1,268,215) | (3,289,362) |
| Other comprehensive income for the financial year, net of income tax | | - | - |
| Total comprehensive loss for the period | | (1,268,215) | (3,289,362) |
| Losses per share⁵ | | Cents | Cents |
| Basic losses per share attributable to ordinary equity holders | D2 | (0.8) | (2.2) |
| Diluted losses per share attributable to ordinary equity holders | D2 | (0.8) | (2.2) |

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

⁴ Exploration and evaluation expenditure is expensed directly to profit and loss when incurred.

⁵ 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.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 30 JUNE 2016

| | Note | 2016 \$ | 2015 \$ |
|--------------------------------------|------|------------------|------------------|
| Assets | | | |
| Cash and cash equivalents | A11 | 1,274,849 | 1,567,911 |
| Trade and other receivables | A8 | 178,113 | 128,814 |
| Total current assets | | 1,452,962 | 1,696,725 |
| Trade and other receivables | A8 | 19,600 | 19,600 |
| Property, plant and equipment | A13 | 1,146,657 | 1,159,506 |
| Total non-current assets | | 1,166,257 | 1,179,106 |
| Total assets | | 2,619,219 | 2,875,831 |
| Liabilities | | | |
| Trade and other payables | A9 | 232,677 | 330,300 |
| Convertible notes | A6 | 1,043,682 | - |
| Total current liabilities | | 1,276,359 | 330,300 |
| Total non-current liabilities | | - | - |
| Total liabilities | | 1,276,359 | 330,300 |
| Net assets | | 1,342,860 | 2,545,531 |
| Equity | | | |
| Issued capital | A5 | 55,233,701 | 55,234,043 |
| Reserves | A5 | 955,301 | 889,415 |
| Accumulated losses | | (54,846,142) | (53,577,927) |
| Total equity | | 1,342,860 | 2,545,531 |

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

YEAR ENDED 30 JUNE 2016

| | Note | Issued Capital | Accumulated Losses | Share Option Reserve | Total Equity |
|--|------|-------------------|---------------------|----------------------|--------------------|
| | | \$ | \$ | \$ | \$ |
| Balance at 1 July 2014 | | 51,592,161 | (50,288,565) | 665,555 | 1,969,151 |
| Loss for the year | | - | (3,289,362) | - | (3,289,362) |
| Other comprehensive income for the year | | - | - | - | - |
| Total comprehensive loss for the year | | - | (3,289,362) | - | (3,289,362) |
| Transactions with owners in their capacity as owners: | | | | | |
| Rights issue capital raisings | A5 | 3,641,882 | - | - | 3,641,882 |
| Equity settled share based payments | C2 | - | - | 223,860 | 223,860 |
| | | 3,641,882 | - | 223,860 | 3,865,742 |
| Balance at 1 July 2015 | | 55,234,043 | (53,577,927) | 889,415 | 2,545,531 |
| Loss for the year | | - | (1,268,215) | - | (1,268,215) |
| Other comprehensive income for the year | | - | - | - | - |
| Total comprehensive loss for the year | | - | (1,268,215) | - | (1,268,215) |
| Transactions with owners in their capacity as owners: | | | | | |
| Costs relating to previous rights issue capital raising | A5 | (342) | - | - | (342) |
| Equity settled share based payments | C2 | - | - | 65,886 | 65,886 |
| | | (342) | - | 65,886 | 65,544 |
| Balance at 30 June 2016 | | 55,233,701 | (54,846,142) | 955,301 | 1,342,860 |

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

CONSOLIDATED STATEMENT OF CASH FLOWS

YEAR ENDED 30 JUNE 2016

| | Note | 2016 \$ | 2015 \$ |
|---|------|-------------|-------------|
| Cash flows used in operating activities | | | |
| Royalties received | | 93,602 | 107,159 |
| Cash paid to suppliers | | (1,478,300) | (3,097,148) |
| Cash used in operations | | (1,384,698) | (2,989,989) |
| Research and development expenditure tax rebate | | 74,968 | - |
| Interest received | | 17,010 | 28,872 |
| Net cash used in operating activities | A7 | (1,292,720) | (2,961,117) |
| Cash flows used in investing activities | | | |
| Payment made for property, plant & equipment | | - | (161,710) |
| Refund received / (payment made) for security deposits | | - | 19,205 |
| Net cash used in investing activities | | - | (142,505) |
| Cash flows from financing activities | | | |
| Proceeds from the issue of share capital | | - | 3,809,990 |
| Cost of issuing share capital | A5 | (342) | (168,108) |
| Proceeds from unsecured convertible notes | A6 | 1,000,000 | - |
| Net cash generated from financing activities | | 999,658 | 3,641,882 |
| Net (decrease) / increase in cash and cash equivalents | | | |
| | | (293,062) | 538,260 |
| Cash and cash equivalents at 1 July | | 1,567,911 | 1,029,651 |
| Cash and cash equivalents at 30 June | A11 | 1,274,849 | 1,567,911 |

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

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 30 JUNE 2016

GENERAL INFORMATION

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

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

The financial statements were authorised for issue, in accordance with a resolution of directors, on 3 August 2016. The directors have the power to amend and reissue the financial statements.

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

SECTION A – KEY FINANCIAL INFORMATION AND PREPARATION BASIS

SECTION B – RISK AND JUDGEMENT

SECTION C – KEY MANAGEMENT PERSONNEL AND RELATED PARTY DISCLOSURES

SECTION D – OTHER DISCLOSURES

SECTION A – KEY FINANCIAL INFORMATION AND PREPARATION BASIS

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

A1 STATEMENT OF COMPLIANCE

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

A2 BASIS OF PREPARATION

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

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

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

Revisions to accounting estimates are recognised in the period in which the estimate is revised, if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

A3 BASIS OF CONSOLIDATION

Subsidiaries

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

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

Transactions eliminated on consolidation

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

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

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

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

A4 GOING CONCERN

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

To fund working capital until the Company proceeds with a larger capital raising to develop its Dolphin Project, the Company successfully obtained \$2,000,000 committed funds up to 31 December 2016 with the issue of four \$500,000 unsecured redeemable convertible notes.

For further details see Note A6.

A5 CAPITAL AND RESERVES

Share capital

| Ordinary shares issued and fully paid | Number of shares | Issue Price Cents per share | \$ |
|---|--------------------|--------------------------------|-------------------|
| 1 July 2014 balance | 135,152,403 | | 51,592,161 |
| Rights offer: | | | |
| Shares issued 11 August 2014 | 16,894,354 | 12.0 | 2,027,322 |
| Shares issued 25 May 2015 | 11,167,908 | 13.5 | 1,507,668 |
| Shares issued 28 May 2015 | 2,037,037 | 13.5 | 275,000 |
| Less Share issue costs | - | | (168,108) |
| 30 June 2015 balance | 165,251,702 | | 55,234,043 |
| Rights offers: | | | |
| Less Share issue costs (relating to previous right issue) | - | | (342) |
| 30 June 2016 balance | 165,251,702 | | 55,233,701 |

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.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

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.

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

Share Based Payment Reserve

| | 2016 \$ | 2015 \$ |
|---|----------------|----------------|
| Balance at 1 July | 889,415 | 665,555 |
| Option expense charge on 31 December 2014 | - | 158,891 |
| Option expense charge on 30 June 2015 | - | 64,969 |
| Option expense charge on 31 December 2015 | 65,530 | - |
| Option expense charge on 30 June 2016 | 356 | - |
| | 65,886 | 223,860 |
| Balance at 30 June | 955,301 | 889,415 |

A6 CURRENT LIABILITY CONVERTIBLE NOTES

| | Number | \$ |
|---|----------|------------------|
| Balance at 1 July 2014 | | |
| Balance at 30 June 2015 | - | - |
| Balance at 1 July 2015 | - | - |
| Convertible note issued on 22 December 2015 | 1 | 500,000 |
| Convertible note issued on 23 December 2015 | 1 | 500,000 |
| | 2 | 1,000,000 |
| Accrued interest to 30 June 2016 | - | 43,682 |
| Balance at 30 June 2016 | 2 | 1,043,682 |

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

In December 2015, the Company successfully obtained \$2,000,000 committed funding up to 31 December 2016 with the issue of four \$500,000 unsecured redeemable convertible notes (Convertible **Notes**). The Company then drew down \$1,000,000 and, if required, the remaining \$1,000,000 is available to be drawn up to 31 December 2016. Conversion or repayment of the Convertible Notes by 31 December 2016 is at the Company's sole discretion.

Principal terms of the Convertible Notes are:

- (a) Face value of \$500,000 each Convertible Note.
- (b) Interest rate of 8% per annum.
- (c) Unsecured.
- (d) Maturity date is 31 December 2016 or on being repaid, whichever is earlier.
- (e) Conversion or repayment is at the Company's sole discretion.
 - (1) The number of Shares to be issued on conversion of Convertible Notes is (Face value of the Convertible Notes being converted plus interest accrued) / Conversion Price
 - (2) Conversion Price is the lower of:
 - i) the VWAP⁶ of KIS shares over the 30 trading days ending on trading day before the conversion date, discounted by 15%; and
 - ii) if at any time during the conversion period, the Company raises at least \$10,000,000 in gross proceeds through equity markets (Capital Raise) and conversion is within three months of the Capital Raise, the price that is equal to the issue price under the Capital Raise discounted by 15%.
- (f) As required by the ASX Listing Rules, prior to any conversion the Company would request shareholder approval at a General Meeting.

An entity related to Mr Christopher Ellis, a director of the Company, subscribed for two Convertible Notes totalling \$1,000,000. For further details see Note C4.

Borrowings

Borrowings are initially recognised at fair value, net of transaction costs incurred. Borrowings are subsequently measured at amortised cost. Any difference between proceeds (net of transaction costs) and the redemption amount is recognised in the income statement over the period of the borrowings using the effective interest method. Fees paid on the establishment of loan facilities, which are not an incremental cost relating to the actual drawdown facility, are recognised as prepayments and amortised on a straight-line basis over the term of the facility.

Borrowings are removed from the statement of financial position when the obligation specified in the contract is discharged, cancelled or expires. The difference between the carrying amount of a financial liability that has been extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognised in other income and expenses.

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

Debt Classification of Convertible Notes

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

⁶ Arithmetic average of the daily volume weighted average price of the ordinary shares in the Company traded on the ASX.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

A7 CASH FLOW RECONCILIATION

| | 2016 \$ | 2015 \$ |
|---|-------------|-------------|
| Cash flows from operating activities | | |
| Net loss attributable to members of the parent | (1,268,215) | (3,289,362) |
| Adjustments for: | | |
| Depreciation and impairment | 12,849 | 13,141 |
| Options expense | 65,886 | 223,860 |
| Interest expense | 43,682 | |
| Refund received for security deposits | - | (19,205) |
| Operating loss before changes in working capital and provisions | (1,145,798) | (3,071,566) |
| Increase in receivables | (49,299) | 24,692 |
| Decrease in payables | (97,623) | 85,757 |
| Net cash used in operating activities | (1,292,720) | (2,961,117) |

A8 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 Note B3).

| | 2016 \$ | 2015 \$ |
|--------------------|------------|------------|
| Current | | |
| Other receivables | 60,183 | 18,844 |
| Prepayments | 117,930 | 109,970 |
| | 178,113 | 128,814 |
| Non-current | | |
| Deposit | 19,600 | 19,600 |

A9 CURRENT LIABILITY TRADE AND OTHER PAYABLES

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

| | 2016 \$ | 2015 \$ |
|---|------------|------------|
| Trade payables | 29,225 | 207,164 |
| Other trade payables and accrued expenses | 203,452 | 123,136 |
| | 232,677 | 330,300 |

A10 PROVISIONS

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

No current provisions exist for the Group as at 30 June 2016.

Site Restoration

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

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

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

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

A11 CASH AND CASH EQUIVALENTS

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

| | 2016 \$ | 2015 \$ |
|---|------------|------------|
| Bank balances | 12,749 | 21,343 |
| Call deposits | 1,262,100 | 1,546,568 |
| Cash and cash equivalents in the statements of cash flows | 1,274,849 | 1,567,911 |

A12 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.

A13 PROPERTY, PLANT AND EQUIPMENT

Owned assets

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

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

Subsequent costs

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

Depreciation

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

| | 2016 | 2015 |
|-----------------------|---------------|---------------|
| ▪ plant and equipment | 5 to 40 years | 5 to 40 years |

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

| | Land \$ | Plant and equipment \$ | Total \$ |
|----------------------------------|------------|---------------------------|-------------|
| Cost | | | |
| Balance at 1 July 2014 | 943,410 | 128,869 | 1,072,279 |
| Additions | - | 161,710 | 161,710 |
| Balance at 30 June 2015 | 943,410 | 290,579 | 1,233,989 |
| Balance at 1 July 2015 | 943,410 | 290,579 | 1,233,989 |
| Additions | - | - | - |
| Balance at 30 June 2016 | 943,410 | 290,579 | 1,233,989 |
| Depreciation | | | |
| Balance at 1 July 2014 | - | (61,342) | (61,342) |
| Depreciation change for the year | - | (13,141) | (13,141) |
| Balance at 30 June 2015 | - | (74,483) | (74,483) |
| Balance at 1 July 2015 | - | (74,483) | (74,483) |
| Depreciation change for the year | - | (12,849) | (12,849) |
| Balance at 30 June 2016 | - | (87,332) | (87,332) |
| Carrying amounts | | | |
| At 30 June 2015 | 943,410 | 216,096 | 1,159,506 |
| At 30 June 2016 | 943,410 | 203,247 | 1,146,657 |

A14 OTHER INCOME

| | 2016 \$ | 2015 \$ |
|---|----------------|----------------|
| Royalty income | 112,741 | 107,159 |
| Research and development expenditure tax rebate | 74,968 | - |
| Other | - | 10,775 |
| | 187,709 | 117,934 |

A15 COMMITMENTS

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

Exploration expenditure commitments

| | 2016 \$ | 2015 \$ |
|---|----------------|----------------|
| Within one year | 200,000 | 200,000 |
| One year or later and not later than five years | - | - |
| Later than five years | - | - |
| | 200,000 | 200,000 |

A16 SEGMENT REPORTING

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

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

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

Business and geographical segments

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

Products and services

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

Geographical areas

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

A17 CONTINGENCIES

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

Purchase price and royalty

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

Adjoining Land

On 12 July 2005 the Company entered into an agreement with a third party vendor to acquire a 5 hectare block of land immediately on the northern boundary of the mine lease to ensure that an appropriate buffer zone is in place between the planned mine and Grassy township. The terms of this purchase were an initial payment of \$700,000 plus an additional \$100,000 payable upon the Company obtaining a permit for planning and development approval to carry on an extractive industry, both of which have been paid in full. There is a further \$100,000 payable to the third party vendor contingent upon the commencement of operations.

Hunan Nonferrous Metals Corporation Ltd

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

King Island Council

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

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

A18 SUBSEQUENT EVENTS

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

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

SECTION B – RISK AND JUDGEMENT

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

B1 FINANCIAL RISK MANAGEMENT

Overview

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

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

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

Credit Risk

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

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. 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 2016 \$ | 2015 \$ |
|---------------------------|------|-------------------------------|------------------|
| Current | | | |
| Cash and cash equivalents | A11 | 1,274,849 | 1,567,911 |
| Receivables | | | |
| Prepayments | A8 | 117,930 | 109,970 |
| Other | A8 | 60,183 | 18,844 |
| | | <u>178,113</u> | <u>128,814</u> |
| | | <u>1,452,962</u> | <u>1,696,725</u> |
| Non-current | | | |
| Deposit | A8 | 19,600 | 19,600 |

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

Impairment losses

None of the Group's other receivables are past due (2015: \$Nil).

Liquidity risk

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

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

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

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

| | Note | Carrying amount \$ | Contractual cash flows \$ | 6 months or less \$ |
|--------------------------|------|--------------------------|---------------------------------|---------------------------|
| 30 June 2016 | | | | |
| Trade and other payables | A9 | 232,677 | 232,677 | 232,677 |
| Convertible notes* | A6 | 1,043,682 | 1,043,682 | 1,043,682 |
| 30 June 2015 | | | | |
| Trade and other payables | A9 | 330,300 | 330,300 | 330,300 |
| Convertible notes | A6 | - | - | - |

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

Market risk

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

Currency risk

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

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.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

Profile

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

| | Carrying amount | |
|----------------------------------|------------------|------------------|
| | 2016 | 2015 |
| | \$ | \$ |
| Fixed rate instruments | | |
| Financial assets | - | - |
| Financial liabilities | 1,043,682 | - |
| | <u>1,043,682</u> | <u>-</u> |
| Variable rate instruments | | |
| Financial assets | 1,274,849 | 1,567,911 |
| | <u>1,274,849</u> | <u>1,567,911</u> |

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.

Cash flow sensitivity analysis for variable rate instruments

A change of 100 basis points in interest rates at the end of the reporting period would have increased or decreased profit and loss by \$14,214 (2015: \$12,988). This analysis assumes that all other variables remain constant.

Commodity Price Risk

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

Capital and Reserves Management

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

B2 DETERMINATION OF FAIR VALUES

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

Trade and other receivables

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

Non-derivative financial liabilities

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

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

Share-based payment transactions

The fair value of the 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.

B3 IMPAIRMENT

The carrying amounts of the Group's assets other than, inventories (see Note A12), and deferred tax assets (see Note D1), are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated (see below).

For intangible assets that are not yet available for use, the recoverable amount is estimated annually, or when facts and circumstances suggest the carrying amount may exceed its recoverable amount.

An impairment loss is recognised whenever the carrying amount of an asset exceeds its recoverable amount. Impairment losses are recognised in the statement of profit or loss and other comprehensive income unless the asset has been re-valued previously in which case the impairment loss is recognised as a reversal to the extent of the previous revaluation with any excess recognised through the statement of profit or loss and other comprehensive income.

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

Calculation of recoverable amount

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

Reversals of impairment

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

B4 FINANCIAL INSTRUMENTS

Effective interest rates and repricing analysis

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

| | Effective interest rate % | Total \$ | 6 months or less \$ | 6-12 months \$ | 1-2 years \$ | 2-5 years \$ | More than 5 years \$ |
|---------------------------|---------------------------------|------------------|---------------------------|----------------------|--------------------|--------------------|-------------------------------|
| 2016 | | | | | | | |
| Cash and cash equivalents | 1.24 | 1,274,849 | 1,274,849 | - | - | - | - |
| Convertible Notes | 8.00 | 1,043,682 | 1,043,682 | | | | |
| 2015 | | | | | | | |
| Cash and cash equivalents | 1.65 | 1,567,911 | 1,567,911 | - | - | - | - |

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

Fair values

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

| | Note | Carrying amount 2016 \$ | Fair value 2016 \$ | Carrying amount 2015 \$ | Fair value 2015 \$ |
|-----------------------------|------|----------------------------------|--------------------------|----------------------------------|--------------------------|
| Trade and other receivables | A8 | 197,713 | 197,713 | 148,414 | 148,414 |
| Cash and cash equivalents | A11 | 1,274,849 | 1,274,849 | 1,567,911 | 1,567,911 |
| Trade and other payables | A9 | (232,677) | (232,677) | (330,300) | (330,300) |
| Convertible notes | A6 | (1,043,682) | (1,043,682) | - | - |
| | | 196,203 | 196,203 | 1,386,025 | 1,386,025 |

SECTION C – KEY MANAGEMENT PERSONNEL AND RELATED PARTY DISCLOSURES

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

C1 KEY MANAGEMENT PERSONNEL EXPENSES

Share-based payment transactions

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

Wages, salaries, and annual leave

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

| | 2016 \$ | 2015 \$ |
|---|----------------|----------------|
| Salaries and fees | 83,787 | 83,787 |
| Consulting charges | 127,100 | 269,750 |
| Options expense | 65,886 | 223,860 |
| Superannuation | 7,960 | 7,960 |
| Compensation for Key Management Personnel | 284,733 | 585,357 |
| Salary on-costs | 976 | 368 |
| | 285,709 | 585,725 |

C2 SHARE-BASED PAYMENTS

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

Options expenses for the year ended 30 June 2016 totalled \$65,886 (2015 \$223,860).

C3 KEY MANAGEMENT PERSONNEL DISCLOSURES

Individual Directors and executive compensation disclosures

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

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

Directors' transactions with the Company or its controlled entities

Aggregate amounts payable to Directors and their Director related entities for unpaid Directors' fees, statutory superannuation owed to each Director's superannuation fund, and consulting fees at the reporting date were as follows:

| | 2016 | 2015 |
|-----------------------------------|---------|---------|
| | \$ | \$ |
| Accounts Payable - current | | |
| Johann Jacobs | 130,583 | 113,483 |
| Christopher Ellis | 14,454 | - |
| Allan Davies | 11,227 | 4,409 |

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.

C4 RELATED PARTY DISCLOSURES

Identity of related parties

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

Other related party transactions

The classes of non-Director related parties are:

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

Convertible notes issued to related parties

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

On 23 December 2015, the Company drew down one \$500,000 convertible note - which is outstanding at 30 June 2016.

Interest accrued and outstanding at 30 June 2016 totalled \$21,782.

As at 30 June 2016, the face value of the convertible note totalled \$521,782 and is repayable or convertible on or before maturity at 31 December 2016.

For further details see Note A6.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

C5 CONSOLIDATED ENTITIES

| | Country of incorporation | Ownership interest | |
|-------------------------------|--------------------------|--------------------|-----------|
| | | 2016 % | 2015 % |
| Parent entity | | | |
| King Island Scheelite Limited | Australia | | |
| Subsidiaries | | | |
| Scheelite Management Pty Ltd | Australia | 100 | 100 |
| GTN Tanzania Pty Ltd | Tanzania | 100 | 100 |
| GTN Operations Pty Ltd | Tanzania | 65 | 65 |
| Australian Tungsten Pty Ltd | Australia | 100 | 100 |

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

SECTION D – OTHER DISCLOSURES

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

D1 INCOME TAX

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

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

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

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

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

Tax consolidation

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

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

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

Numerical reconciliation between tax benefit and pre-tax net loss

| | 2016 \$ | 2015 \$ |
|---|-------------|-------------|
| Loss before tax | (1,268,215) | (3,289,362) |
| Prima facie Income tax benefit at a tax rate of 30% | 380,464 | 986,809 |
| (Decrease) / Increase in income tax benefit due to: | | |
| Income tax losses not recognised | (380,464) | (986,809) |
| Income tax benefit on pre-tax net loss | - | - |
| <i>Unrecognised deferred tax assets</i> | | |
| Revenue tax losses | 11,400,857 | 11,063,289 |
| Capital tax losses | 1,413,355 | 1,413,355 |

The tax losses do not expire under current legislation. Deferred tax assets have not been recognised in respect of this item because, at this time, it is not probable that future taxable profit will be available against which the benefits can be offset.

D2 LOSSES PER SHARE

The calculation of basic and diluted losses per share for the year ended 30 June 2016 was based on the net loss attributable to ordinary shareholders of \$1,268,215 (2015: loss \$3,289,362) and a weighted average number of ordinary shares outstanding during the year ended 30 June 2016 of 165,251,702 (2015: 151,388,411), calculated as follows:

| | 2016 \$ | 2015 \$ |
|---|-------------|-------------|
| Loss for the financial year attributable to ordinary shareholders | (1,268,215) | (3,289,362) |
| <i>Weighted average number of ordinary shares</i> | | |
| Undiluted Number of Shares | | |
| Issued ordinary shares at 1 July | 165,251,702 | 135,152,403 |
| Effect of shares issued 11 August 2014 | - | 14,950,346 |
| Effect of shares issued 25 May 2015 | - | 1,101,492 |
| Effect of shares issued 28 May 2015 | - | 184,170 |
| Weighted average number of ordinary shares used in calculating basic and diluted loss per share | 165,251,702 | 151,388,411 |

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

8,731,082 potential shares (2015 Nil) were excluded from the calculation of diluted earnings per share because they are antidilutive for the year ended 30 June 2016.

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

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

D3 AUDITOR'S REMUNERATION

| | 2016 | 2015 |
|---|---------------|---------------|
| | \$ | \$ |
| Auditors of the Company <i>KPMG Australia</i> | | |
| Audit and review of financial reports | 41,200 | 41,200 |
| Other assurance services | - | 3,850 |
| | <u>41,200</u> | <u>45,050</u> |

The auditors of the Company, KPMG Australia, did not perform other non-audit assurance services for the Group during the year (2015: \$Nil).

D4 PARENT ENTITY DISCLOSURES

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

As at, and throughout, the financial year ending 30 June 2016 the parent company of the Group was King Island Scheelite Limited.

| | 2016 | 2015 |
|---|------------------|------------------|
| | \$ | \$ |
| Results of the parent entity | | |
| Loss for the period | (722,804) | (869,823) |
| Other comprehensive income | - | - |
| Total comprehensive income for the period | <u>(722,804)</u> | <u>(869,823)</u> |

Financial position of parent entity at year end

| | | |
|---------------------|-------------------|-------------------|
| Current assets | 1,299,872 | 1,573,680 |
| Non-current assets | 25,141,269 | 24,466,466 |
| Total assets | <u>26,441,141</u> | <u>26,040,146</u> |
| Current liabilities | 3,336,083 | 2,277,828 |
| Total liabilities | <u>3,336,083</u> | <u>2,277,828</u> |
| Net Assets | <u>23,105,058</u> | <u>23,762,318</u> |

Total equity of the parent entity comprising of:

| | | |
|----------------------|-------------------|-------------------|
| Share capital | 55,233,701 | 55,234,043 |
| Share Option Reserve | 955,300 | 889,414 |
| Accumulated Losses | (33,083,943) | (32,361,139) |
| Total Equity | <u>23,105,058</u> | <u>23,762,318</u> |

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

There are no parent entity capital commitments for acquisition of property, plant and equipment as at 30 June 2016 (2015: \$Nil).

Contingencies

Refer to Note A17 for contingencies related to the parent entity.

D5 REVENUE

Revenue from the sale of goods is recognised in the statement of profit or loss and other 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.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

D6 FINANCING INCOME AND EXPENSES

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

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

D7 DERIVATIVES

The financial entity does not hold any derivative financial instruments.

D8 GST

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

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

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

D9 CHANGES IN ACCOUNTING POLICIES

The Group has adopted the new amendments to AASB 10 Consolidated Financial Statements. The nature and effects of the changes are explained below.

Business combinations

The Group accounts for business combinations using the acquisition method when control is transferred to the Group. The consideration transferred in the acquisition is generally measured at fair value, as are the identifiable net assets acquired.

Any contingent consideration is measured at fair value at the date of acquisition. If an obligation to pay contingent consideration that meets the definition of a financial instrument is classified as equity, then it is not remeasured and settlement is accounted for within equity. Otherwise, other contingent consideration is remeasured at fair value at each reporting date and subsequent changes in the fair value of the contingent consideration are recognised in profit and loss.

D10 NEW ACCOUNTING STANDARDS

A number of new standards and amendments to standards are effective for annual periods beginning after 1 January 2015 and have not been applied in preparing these financial statements. None of these are expected to have a significant effect on the financial statements of the Group, except for *AASB 9 Financial Instruments*, which is effective for annual periods beginning on or after 1 January 2018.

AASB 9 Financial Instruments

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

AASB 15 Revenue from Contracts with Customers

AASB 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognised. It replaces existing revenue recognition guidance, including *AASB 118 Revenue*, *AASB 111 Construction Contracts* and *IFRIC 13 Customer Loyalty Programmes*. AASB 15 is effective for annual reporting

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

periods beginning on or after 1 January 2018, with early adoption permitted. The Group is assessing the potential impact on its financial statements resulting from the application of AASB 15.

IFRS 16 Leases

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

DIRECTORS' DECLARATION

1. In the opinion of the Directors of King Island Scheelite Limited ("the Company"):
 - (a) the consolidated financial statements and notes that are set out on pages 18 to 40 and the Remuneration Report on pages 10 to 14 in the Directors' Report, are in accordance with the *Corporations Act 2001 (Cth)*, including:
 - (i) giving a true and fair view of the Group's financial position as at 30 June 2016 and of its performance for the financial year ended on that date; and
 - (ii) complying with *Australian Accounting Standards* and the *Corporations Regulations 2001*; and
 - (b) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.
2. The Directors have been given the declarations required by Section 295A of the *Corporations Act 2001 (Cth)* from the Chief Executive Officer and Chief Financial Officer for the financial year ended 30 June 2016.
3. The Directors draw attention to Note A1 to the consolidated financial statements, which includes a statement of compliance with International Financial Reporting Standards.

Signed in accordance with a resolution of the Directors.



Johann Jacobs
Chairman
Sydney
3 August 2016



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 year ended 30 June 2016 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.

A handwritten signature in blue ink that reads 'KPMG'.

KPMG

A handwritten signature in blue ink, appearing to be 'Daniel Camilleri'.

Daniel Camilleri
Partner

Sydney

3 August 2016



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 2016, consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year ended on that date, notes A1 to D10 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 A1, 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 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 2016 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 A1.

Report on the remuneration report

We have audited the Remuneration Report included on page 10 to 14 of the Directors' report for the year ended 30 June 2016. 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 2016, complies with Section 300A of the *Corporations Act 2001*.

KPMG

Daniel Camilleri
Partner

Sydney
3 August 2016

ADDITIONAL SHAREHOLDER INFORMATION CONTINUED

ADDITIONAL SHAREHOLDER INFORMATION

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

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

At 30 June 2016, issued capital was 165,251,702 ordinary fully paid shares held by 599 holders.

20 Largest Holders of Ordinary Shares and their Holdings at 30 June 2016

| Rank | Name | Number of Shares | % of Issued |
|--|--|--------------------|---------------|
| 1 | HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED | 26,710,518 | 16.16 |
| 2 | INVIA CUSTODIAN PTY LIMITED <R & G CHADWICK A/C> | 25,983,239 | 15.72 |
| 3 | MRS CATHERINE JEANE MORRITT | 14,157,199 | 8.57 |
| 4 | MR ANTHONY JAMES HAGGARTY | 8,476,604 | 5.13 |
| 5 | MR GIUSEPPE CORONICA | 7,606,028 | 4.60 |
| 6 | HFTT PTY LTD <HAGGARTY FAMILY A/C> | 6,522,348 | 3.95 |
| 7 | INVIA CUSTODIAN PTY LIMITED <PACIFIC ROAD PROVIDENT A/C> | 5,766,567 | 3.49 |
| 8 | RANAMOK PTY LTD <RANAMOK FAMILY A/C> | 5,170,590 | 3.13 |
| 9 | HUNAN NONFERROUS METALS CORPORATION LIMITED | 4,450,000 | 2.69 |
| 10 | INVIA CUSTODIAN PTY LIMITED <AJ & LM DAVIES FAMILY A/C> | 3,543,587 | 2.14 |
| 11 | SERLETT PTY LTD <DILIGENT INV SUPERFUND A/C> | 2,818,537 | 1.71 |
| 12 | MR SCOTT GILCHRIST | 2,268,755 | 1.37 |
| 13 | CHELSEA SECURITIES LIMITED | 2,188,659 | 1.32 |
| 14 | LIPPO SECURITIES LTD <CLIENT A/C> | 1,905,282 | 1.15 |
| 15 | MR DONALD BOYD | 1,817,188 | 1.10 |
| 16 | FINMIN SOLUTIONS PTY LTD <JACOBS FAMILY S/FUND A/C> | 1,694,120 | 1.03 |
| 17 | CARIDON PTY LTD <CARIDON P/L SUPER FUND A/C> | 1,650,000 | 1.00 |
| 18 | MR ROBERT SLADE FORBES | 1,500,000 | 0.91 |
| 19 | RYTECH PTY LTD <RYTECH SUPERFUND A/C> | 1,500,000 | 0.91 |
| 20 | MR GIUSEPPE CORONICA + MRS YVONNE PRICE <G CORONICA PTY S/F A/C> | 1,491,145 | 0.90 |
| Top 20 holders of ORDINARY SHARES (TOTAL) | | 127,220,366 | 76.98% |

Distribution of Holders and Holdings at 30 June 2016

| Range | Total holders | Number of Shares | % of Issued Capital |
|-------------------------|---------------|--------------------|---------------------|
| 1 - 1,000 | 31 | 1,747 | 0.00 |
| 1,001 - 5,000 | 102 | 353,189 | 0.21 |
| 5,001 - 10,000 | 87 | 652,429 | 0.39 |
| 10,001 - 100,000 | 266 | 9,716,509 | 5.88 |
| 100,001 - 9,999,999,999 | 113 | 154,527,828 | 93.51 |
| Rounding | - | - | 0.01 |
| Total | 599 | 165,251,702 | 100.00% |

Unmarketable Parcels at 30 June 2016

| | Minimum Parcel Size | Holders | Number of Shares |
|--|---------------------|---------|------------------|
| Minimum \$ 500.00 parcel at \$ 0.053 per share | 9,434 | 200 | 808,845 |

ADDITIONAL SHAREHOLDER INFORMATION CONTINUED

Substantial Shareholders at 30 June 2016

| | Number of Shares | Proportion of Issued Shares |
|---|------------------|-----------------------------|
| CHRYSLIS INVESTMENTS PTY LTD | 26,078,220 | 15.8% |
| MR RICHARD WILLMOT CHADWICK + MRS GWENDA ANN CHADWICK | 25,983,239 | 15.7% |
| MRS CATHERINE JEANE MORRITT | 14,157,199 | 8.6% |
| MR GIUSEPPE CORONICA | 9,533,537 | 5.8% |
| MR ANTHONY JAMES HAGGARTY | 8,476,604 | 5.1% |

Unquoted Securities

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

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

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

Mining Exploration Tenements

The Company holds the following licences and lease.

| | Interest |
|--|----------|
| Exploration Licence EL 19/2001 at Grassy, King Island (91 sq kms) (expires 14 December 2016) | 100% |
| Mining Lease 1M/2006 at Grassy, King Island (544 hectares) (expires 5 June 2029) | 100% |

Securities Exchange Listing

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

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

On-Market Buy Back

There is no on-market buy-back.

Corporate Governance Statement

The Company's Corporate Governance statement for the financial year ended 30 June 2016 is available for members to download and access from <http://kingislandscheelite.com.au/corporate-governance>