

BLUESTONE
TIN LIMITED

ACN 110 150 055

Half-Year Financial Report 31 December 2005



CORPORATE DIRECTORY

Directors

Peter J Newton (Chairman)
Peter G Cook (Managing Director)
Warren S Hallam
D Mark Okeby

Joint Company Secretaries

D Mark Okeby
Fiona Van Maanen

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Stock Exchange

Listed on the Australian Stock Exchange
Code: BTX

Domicile and Country of Incorporation

Australia

CONTENTS

DIRECTOR'S REPORT	1
CONDENSED INCOME STATEMENT FOR THE HALF-YEAR ENDED 31 DECEMBER 2005.....	2
CONDENSED BALANCE SHEET AS AT 31 DECEMBER 2005	3
CONDENSED CASH FLOW STATEMENT FOR THE HALF-YEAR ENDED 31 DECEMBER 2005	4
CONDENSED STATEMENT OF CHANGES IN EQUITY FOR THE HALF-YEAR ENDED 31 DECEMBER 2005	5
NOTES TO THE HALF-YEAR FINANCIAL STATEMENTS FOR THE HALF-YEAR ENDED 31 DECEMBER 2005	6
DIRECTORS' DECLARATION	20
INDEPENDENT REVIEW REPORT	21



DIRECTOR'S REPORT

Your directors submit their report for the half-year ended 31 December 2005.

DIRECTORS

The names of the company's directors in office during the half-year and until the date of this report are as below. Directors were in office for this entire period unless otherwise stated.

Peter John Newton (Chairman)
Peter Gerard Cook (Managing Director)
Donald Mark Okeby
Warren Shaye Hallam
Peter Thomas Cunningham (resigned - 20 July 2005)

REVIEW AND RESULTS OF OPERATIONS

The loss from ordinary activities after income tax of the Consolidated Entity for the half-year period ended 31 December 2005 was \$12,318,781 (2004 : \$857,750).

AUDITOR'S INDEPENDENCE

We have obtained the following independence declaration from our auditors, Ernst & Young.

“Auditor's Independence Declaration to the Directors of Bluestone Tin Limited

In relation to our review of the financial report of Bluestone Tin Limited for the half-year ended 31 December 2005, to the best of my knowledge and belief, there have been no contraventions of the auditor independence requirements of the Corporations Act 2001 or any applicable code of professional conduct.

Ernst & Young”

Signed in accordance with a resolution of the Directors.

Peter G Cook
Managing Director

Perth, 2 March 2006



Condensed Income Statement for the Half-Year ended 31 December 2005

CONSOLIDATED			
Notes	31 December 2005 \$	31 December 2004 \$	
Continuing operations			
Revenue	2	10,749,410	444,422
Cost of sales		(21,752,641)	-
Gross loss		(11,003,231)	444,422
Other income	2	64,211	4,003
Other expenses		(1,146,857)	(1,135,945)
Loss before tax and finance costs	2	(12,085,877)	(687,520)
Finance costs	2	(232,904)	(170,230)
Loss before income tax		(12,318,781)	(857,750)
Income tax expense		-	-
Loss after tax		(12,318,781)	(857,750)
Earnings per share (cents per share)			
- basic for loss for the half-year		0.04	0.00
- diluted for loss for the half-year		0.04	0.00
- dividends paid per share		-	-

The accompanying notes form an integral part of this condensed income statement.



Condensed Balance Sheet as at 31 December 2005

	Note	CONSOLIDATED	
		As at 31 December 2005	As at 30 June 2005
		\$	\$
CURRENT ASSETS			
Cash and cash equivalents		5,572,770	17,046,766
Trade and other receivables		806,444	1,040,511
Inventories		1,419,409	3,111,854
Other assets		121,078	50,159
Other financial assets		406,200	404,200
Total current assets		8,325,901	21,653,490
NON-CURRENT ASSETS			
Property, plant and equipment		23,463,350	12,047,899
Mine properties and development costs		37,435,035	29,978,206
Exploration and evaluation expenditure		234,550	80,743
Total non-current Assets		61,132,935	42,106,848
TOTAL ASSETS		69,458,836	63,760,338
CURRENT LIABILITIES			
Trade and other payables		10,869,351	7,527,947
Interest bearing liabilities		1,756,476	1,878,625
Provisions for employee entitlements		305,220	308,032
Total current liabilities		12,931,047	9,714,604
NON-CURRENT LIABILITIES			
Payables		24,193	24,193
Provision for rehabilitation		4,509,900	4,454,171
Total non-current liabilities		4,534,093	4,478,364
TOTAL LIABILITIES		17,465,140	14,192,968
NET ASSETS		51,993,696	49,567,370
EQUITY			
Issued capital	4	82,585,537	74,241,186
Option premium reserve		6,669,458	268,702
Accumulated losses		(37,261,299)	(24,942,518)
TOTAL EQUITY		51,993,696	49,567,370

The accompanying notes form an integral part of this condensed balance sheet.



Condensed Cash Flow Statement for the Half-Year ended 31 December 2005

CONSOLIDATED		
Note	31 December 2005 \$	31 December 2004 \$
Cash flows (used in) operating activities		
Receipts from customers	10,556,710	-
Interest received	180,206	444,422
Other income	64,211	4,003
Payments to suppliers and employees	(17,946,745)	(2,068,630)
Interest paid	(152,441)	(48,191)
Net cash flows (used in) operating activities	(7,298,059)	(1,668,396)
Cash flows (used in) investing activities		
Payments for property, plant and equipment	(12,081,519)	(4,940,554)
Payments for mine properties and development	(10,622,858)	(15,156,858)
Payments for exploration and evaluation	(153,807)	(11,831)
Net cash flows (used in) investing activities	(22,858,184)	(20,109,243)
Cash flows from financing activities		
Proceeds from the issue of shares	15,475,600	47,155,000
Payment of share issue costs	(819,195)	(1,228,982)
Proceeds from borrowings	4,149,990	-
Repayment of borrowings	(122,148)	(2,156,875)
Payment for performance bond facility	(2,000)	-
Net cash flows from financing activities	18,682,247	43,769,143
Net (decrease)/increase in cash held	(11,473,996)	21,991,504
Cash at the beginning of the financial period	17,046,766	494,856
Cash at the end of the financial period	8 5,572,770	22,486,360

The accompanying notes form an integral part of this condensed cash flow statement.



Condensed Statement of Changes in Equity for the Half-Year ended 31 December 2005

	Attributable to equity holders of the parent			
CONSOLIDATED	Issued capital \$	Accumulated losses \$	Option premium reserve \$	Total equity \$
At 1 July 2004	4,020,001	(304,624)	-	3,715,377
Issue of share capital	6,650,000	-	-	6,650,000
Issue share capital - initial public offering	21,500,000	-	-	21,500,000
Issue share capital - placement Nov 2004	18,600,000	-	-	18,600,000
Issue of shares on exercise of options	405,000	-	-	405,000
Share issue costs	(1,228,982)	-	-	(1,228,982)
Loss for the period	-	(857,750)	-	(857,750)
Cost of share-based payment	-	-	51,714	51,714
At 31 December 2004	49,946,019	(1,162,374)	51,714	48,835,359
At 1 July 2005	74,241,186	(24,942,518)	268,702	49,567,370
Issue share capital – rights issue Dec 2005	15,475,600	-	-	15,475,600
Share issue costs	(7,131,249)	-	6,312,054	(819,195)
Loss for the period	-	(12,318,781)	-	(12,318,781)
Cost of share-based payment	-	-	88,702	88,702
At 31 December 2005	82,585,537	(37,261,299)	6,669,458	51,993,696

The accompanying notes form an integral part of this condensed statement of changes in equity.



Notes to the Half-Year Financial Statements for the Half-Year ended 31 December 2005

1. SUMMARY OF ACCOUNTING POLICIES

(a) Basis of preparation of the half-year financial report

The half-year financial report does not include all notes of the type normally included within the annual financial report and therefore cannot be expected to provide as full an understanding of the financial performance, financial position and financing and investing activities of the consolidated entity as the full financial report.

The half-year financial report should be read in conjunction with the annual Financial Report of Bluestone Tin Limited as at 30 June 2005, which was prepared based on Australian Accounting Standards applicable for financial years beginning before 1 January 2005 ('AGAAP').

It is also recommended that the half-year financial report be considered together with any public announcements made by Bluestone Tin Limited and its controlled entities during the half-year ended 31 December 2005 in accordance with the continuous disclosure obligations arising under the Corporations Act 2001 and Stock Exchange Listing Rules.

(b) Basis of accounting

The half-year financial report is a general-purpose financial report, which has been prepared in accordance with the requirements of the Corporations Act 2001 and AASB 134 "Interim Financial Reporting".

The half-year financial report has been prepared on a historical cost basis.

For the purpose of preparing the half-year financial report, the half-year has been treated as a discrete reporting period.

(c) Statement of compliance

Compliance with AASB 134 ensures that the half-year financial report, comprising the financial statements and notes thereto, complies with International Financial Reporting Standard IAS 34 'Interim Financial Reporting'.

This is the first half-year financial report prepared based on Australian equivalents to International Financial Reporting Standards ('AIFRS') and comparatives for the half-year ended 31 December 2004 and full-year ended 30 June 2005 have been restated accordingly. A summary of the significant accounting policies of the Consolidated Entity under AIFRS are disclosed in note 1(d) to 1(z) below.

Reconciliations of:

- ◆ AIFRS equity as at 1 July 2004, 31 December 2004 and 30 June 2005; and
- ◆ AIFRS loss for the period to 31 December 2004 and full year to 30 June 2005,

to the balances reported in the 31 December 2004 half-year report and 30 June 2005 full-year financial report prepared under AGAAP are detailed in Note 1(ab) below.



Notes to the Half-Year Financial Statements for the Half-Year ended 31 December 2005 (continued)

1. SUMMARY OF ACCOUNTING POLICIES (Continued)

(d) Basis of consolidation

The consolidated financial statements comprise the financial statements of the parent entity and its controlled entities ('the Consolidated Entity').

The financial statements of subsidiaries are prepared for the same reporting period as the parent company, using consistent accounting policies.

All intercompany balances and transactions, from intra-group transactions, have been eliminated in full.

Subsidiaries are consolidated from the date on which control is transferred to the Consolidated Entity and cease to be consolidated from the date on which control is transferred out of the Consolidated Entity.

Where there is loss of control of a subsidiary, the consolidated financial statements include the results for the part of the reporting period during which Bluestone Tin Limited has control.

(e) Foreign currency translation

Both the functional and presentation currency of Bluestone Tin Limited is Australian dollars (A\$).

Transactions in foreign currencies are initially recorded in the functional currency at the exchange rates ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated at the rate of exchange at the balance sheet date.

All exchange differences in the consolidated financial report are taken to the income statement.

(f) Property, plant and equipment

Plant and equipment is stated at cost less accumulated depreciation and any impairment value.

Capital work-in-progress is stated at cost and comprises all costs directly attributable to bringing the assets under construction ready to their intended use. Capital work-in-progress is transferred to property, plant and equipment at cost on completion.

Depreciation is calculated on a straight-line basis over the estimated useful life of the asset, or where appropriate, over the estimated life of the mine.

Major depreciation periods are:

- Mine specific plant and equipment is depreciated using – the shorter of life of mine or useful life. Useful life ranges from 2 to 10 years.
- Mine Buildings – the shorter of life of mine or useful life. Useful life ranges from 5 to 10 years.
- Office Plant and equipment is depreciated at 33% per annum for computers and office machines and 20% per annum for other office equipment and furniture.
- Profits and losses on disposal of property, plant and equipment are brought to account in the determination of profit for the period.



Notes to the Half-Year Financial Statements for the Half-Year ended 31 December 2005 (continued)

1. SUMMARY OF ACCOUNTING POLICIES (Continued)

Impairment

The carrying values of plant and equipment are reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable.

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.

If any such indication exists and where the carrying values exceed the estimated recoverable amount, the assets or cash-generating units are written down to their recoverable amount.

Derecognition

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset.

Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in the income statement in the period the item is derecognised.

(g) Mine properties and development

Expenditure on the acquisition and development of mine properties within an area of interest are carried forward at cost separately for each area of interest. Accumulated expenditure is amortised over the life of the area of interest to which such costs relate on a production output basis.

A regular review is undertaken of each area of interest to determine the appropriateness of continuing to carry forward costs in relation to that area of interest. Should the carrying value of the expenditure not yet amortised exceed its estimated recoverable amount in any year, the excess is written off to the income statement.

(h) Exploration and evaluation expenditure

Expenditure on acquisition, exploration and evaluation relating to an area of interest is carried forward at cost where rights to tenure of the area of interest are current and;

- i) it is expected that expenditure will be recouped through successful development and exploitation of the area of interest or alternatively by its sale and/or;
- ii) exploration and evaluation activities are continuing in an area of interest but at balance date have not yet reached a stage which permits a reasonable assessment of the existence or otherwise of economically recoverable reserves.

A regular review is undertaken of each area of interest to determine the appropriateness of continuing to carry forward costs in relation to that area of interest. Where uncertainty exists as to the future viability of certain areas; the value of the area of interest is written off to the income statement or provided against.

(i) Research costs

Research costs are expensed as incurred.



Notes to the Half-Year Financial Statements for the Half-Year ended 31 December 2005 (continued)

1. SUMMARY OF ACCOUNTING POLICIES (Continued)

(j) Restoration costs

Long-term environmental obligations are based on the Consolidated Entity's environmental management plans, in compliance with current environmental and regulatory requirements.

Full provision is made based on the net present value of the estimated cost of restoring the environmental disturbance that has occurred up to the balance sheet date. Increases due to additional environmental disturbances, relating to the development of an asset, are capitalised and amortised over the remaining lives of the area of interest. These increases are accounted for on a net present value basis.

Annual increases in the provision relating to the change in the net present value of the provision are accounted for in the income statement as borrowing costs.

The estimated costs of rehabilitation are reviewed annually and adjusted as appropriate for changes in legislation, technology or other circumstances. Cost estimates are not reduced by potential proceeds from the sale of assets or from plant clean up at closure.

(k) Recoverable amount of assets

At each reporting date, the Consolidated Entity assesses whether there is any indication that an asset may be impaired. Where an indicator of impairment exists, the Consolidated Entity makes a formal estimate of recoverable amount. Where the carrying amount of an asset exceeds its recoverable amount the asset is considered impaired and is written down to its recoverable amount.

Recoverable amount is the greater of fair value less costs to sell and value in use. It is determined for an individual asset, unless the asset's value in use cannot be estimated to be close to its fair value less costs to sell and it does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

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.

An assessment is also made at each reporting date as to whether there is any indication that a previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. If that is the case the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in profit or loss unless the asset is carried at revalued amount, in which case the reversal is treated as a revaluation increase. After such a reversal the depreciation charge is adjusted in future periods to allocate the asset's revised carrying amount, less any residual value, on a systematic basis over its remaining useful life.

(l) Inventories

Inventories are valued at the lower of cost and net realisable value after an allowance is made for obsolescence.

Cost includes expenditure incurred in acquiring and bringing the inventories to their existing condition and location and is determined using the weighted average cost method.



Notes to the Half-Year Financial Statements for the Half-Year ended 31 December 2005 (continued)

1. SUMMARY OF ACCOUNTING POLICIES (Continued)

(m) Trade and other receivables

Trade and other receivables are recognised and carried at original invoice amount less an allowance for any uncollectible amounts.

An estimate for doubtful debts is made when collection of the full amount is no longer probable. Bad debts are written off when identified.

(n) Cash and cash equivalents

Cash and short-term deposits in the balance sheet comprise cash at bank and in hand and short-term deposits with an original maturity of three months or less.

For the purposes of the Cash Flow Statement, cash and cash equivalents consist of cash and cash equivalents as defined above, net of outstanding bank overdrafts.

(o) Interest-bearing loans and borrowings

All loans and borrowings are initially recognised at the fair value of the consideration received less directly attributable transaction costs.

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the effective interest rate method.

Gains and losses are recognised in the profit or loss when the liabilities are derecognised.

(p) Trade and other payables

Trade payables and other payables are carried at amortised cost and represent liabilities for goods and services provided to the Consolidated Entity prior to the end of the financial year that are unpaid and arise when the Consolidated Entity becomes obliged to make future payments in respect of the purchase of these goods and services.

(q) Provisions

Provisions are recognised when the Consolidated Entity has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

If the effect of the time value of money 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, where appropriate, the risks specific to the liability.

Where discounting is used, the increase in the provision due to the passage of time is recognised as a finance cost.

(r) Borrowing costs

Borrowing costs are recognised as an expense when incurred, except when they relate to the funding of qualifying assets or re-financing of loans used to acquire investments, at which time such borrowing costs are capitalised.

(s) Derivative financial instruments

The Consolidated Entity does not use derivative financial instruments to manage commodity price and foreign currency exposures.



Notes to the Half-Year Financial Statements for the Half-Year ended 31 December 2005 (continued)

1. SUMMARY OF ACCOUNTING POLICIES (Continued)

(t) Share-based payment transactions

The Consolidated Entity provides benefits to employees (including directors) of the Consolidated Entity in the form of share-based payment transactions, whereby employees render services in exchange for shares or rights over shares ('equity-settled transactions').

The Consolidated Entity has one plan in place that provides these benefits. It is the Employee Share Option Plan ("ESOP"), which provides benefits to all employees including directors.

The cost of these equity-settled transactions with employees is measured by reference to the fair value at the date at which they are granted. The fair value is determined by using a binomial model.

In valuing equity-settled transactions, no account is taken of any performance conditions, other than conditions linked to the price of the shares of Bluestone Tin Limited ('market conditions').

The cost of equity-settled transactions is recognised, together with a corresponding increase in equity, over the period in which the performance conditions are fulfilled, ending on the date on which the relevant employees become fully entitled to the award ('vesting date').

The cumulative expense recognised for equity-settled transactions at each reporting date until vesting date reflects (i) the extent to which the vesting period has expired and (ii) the number of awards that, in the opinion of the directors of the Consolidated Entity, will ultimately vest. This opinion is formed based on the best information at balance date. No adjustment is made for the likelihood of market performance conditions being met as the effect of these conditions is included in the determination of fair value at grant date.

No expense is recognised for awards that do not ultimately vest, except for awards where vesting is conditional upon a market condition.

Where the terms of an equity-settled award are modified, as a minimum an expense is recognised as if the terms had not been modified. In addition, an expense is recognised for any increase in the value of the transaction as a result of the modification, as measured at the date of modification.

Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. However, if a new award is substituted for the cancelled award, and designated as a replacement award on the date that it is granted, the cancelled and new award are treated as if they were a modification of the original award, as described in the previous paragraph.

The dilutive effect, if any, of outstanding options is reflected as additional share dilution in the computation of earnings per share.

(u) Employee benefits

(i) Wages, salaries, annual leave and sick leave

Liabilities for wages and salaries, including non-monetary benefits, annual leave and accumulating sick leave expected to be settled within 12 months of the reporting date are recognised in other payables in respect of employees' services up to the reporting date. They are measured at the amounts expected to be paid when the liabilities are settled. Liabilities for non-accumulating sick leave are recognised when the leave is taken and are measured at the rates paid or payable.



Notes to the Half-Year Financial Statements for the Half-Year ended 31 December 2005 (continued)

1. SUMMARY OF ACCOUNTING POLICIES (Continued)

(ii) Long service leave

The liability for long service leave is recognised in the provision for employee benefits and measured as the present value of expected future payments to be made in respect of services provided by employees up to the reporting date using the projected unit credit method. Consideration is given to expected future wage and salary levels, experience of employee departures, and periods of service. Expected future payments are discounted using market yields at the reporting date on national government bonds with terms to maturity and currencies that match, as closely as possible, the estimated future cash outflows.

Contributions made by the Consolidated Entity to employee superannuation funds are charged as an expense when incurred.

(v) Leases

Leases are classified at their inception as either operating or finance leases based on the economic substance of the agreement so as to reflect the risks and benefits incidental to ownership.

(i) Operating Leases

The minimum lease payments of operating leases, where the lessor effectively retains substantially all of the risks and benefits of ownership of the leased item, are recognised as an expense in the income statement on a straight-line basis over the lease term.

Contingent rentals are recognised as an expense in the financial year in which they are incurred.

(ii) Finance Leases

Leases which effectively transfer substantially all the risks and benefits incidental to ownership of the leased item to the Consolidated Entity are capitalised at the inception of the lease at the fair value of the leased property or, if lower, at the present value of the minimum lease payments.

Lease payments are apportioned between the finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly to the income statement.

Capitalised leased assets are depreciated over the estimated useful life of the asset or where appropriate, over the estimated life of the mine.

The cost of improvements to or on leasehold property is capitalised, disclosed as leasehold improvements, and amortised over the unexpired period of the lease or the estimated useful lives of the improvements, whichever is the shorter.

(w) Revenue

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Consolidated Entity and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognised:

Tin sale

Revenue from tin production is recognised when the significant risks and rewards of ownership in the product has passed to the buyer and can be measured reliably.



Notes to the Half-Year Financial Statements for the Half-Year ended 31 December 2005 (continued)

1. SUMMARY OF ACCOUNTING POLICIES (Continued)

Interest income

Revenue is recognised as interest accrues using the effective interest method. This is a method of calculating the amortised cost of a financial asset and allocating the interest income over the relevant period using the effective interest rate, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to the net carrying amount of the financial asset.

(x) **Income tax**

The Consolidated Entity has not adopted tax consolidation legislation as of 31 December 2005.

Deferred income tax is provided on all temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred income tax liabilities are recognised for all taxable temporary differences:

- ◆ except where the deferred income tax liability arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- ◆ in respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, except where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred income tax assets are recognised for all deductible temporary differences, carry-forward of unused tax assets and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry-forward of unused tax assets and unused tax losses can be utilised:

- ◆ except where the deferred income tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- ◆ in respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred income tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilised.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date.

Income taxes relating to items recognised directly in equity are recognised in equity and not in the income statement.



Notes to the Half-Year Financial Statements for the Half-Year ended 31 December 2005 (continued)

1. SUMMARY OF ACCOUNTING POLICIES (Continued)

(y) Other taxes

Revenues, expenses and assets are recognised net of the amount of GST except:

- ◆ where the GST incurred on a purchase of goods and services is not recoverable from the taxation authority, in which case the GST is recognised as part of the cost of acquisition of the asset or as part of the expense item as applicable; and
- ◆ receivables and payables are stated with the amount of GST included.

The net amount of GST recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the balance sheet.

Cash flows are included in the Cash Flow Statement on a gross basis and the GST component of cash flows arising from investing and financing activities, which is recoverable from, or payable to, the taxation authority are classified as operating cash flows.

Commitments and contingencies are disclosed net of amounts of GST recoverable from, or payable to, the taxation authority.

(z) Issued capital

Issued and paid up capital is recognised at the fair value of the consideration received by the Consolidated Entity. Any transaction costs arising on the issue of ordinary shares are recognised directly in equity as a reduction in the proceeds received.

(aa) AASB 1 Transitional exemptions

The Consolidated Entity has made its election in relation to the transitional exemptions allowed by AASB 1 'First-time Adoption of Australian Equivalents to International Financial Reporting Standards' as follows:

Business combinations

AASB 3 'Business Combinations' was not applied retrospectively to past business combinations (i.e. business combinations that occurred before the date of transition to AIFRS).

Share-based payment transactions

AASB 2 'Share-Based Payments' is applied only to equity instruments granted after 7 November 2002 that had not vested on or before 1 January 2005.

Exemption from the requirement to restate comparative information for AASB 132 and AASB 139

The Consolidated Entity has not elected to adopt this exemption and has applied AASB 132 'Financial Instruments: Presentation and Disclosure' and AASB 139 'Financial Instruments: Recognition and Measurement' to its comparative information.



Notes to the Half-Year Financial Statements for the Half-Year ended 31 December 2005 (continued)

1. SUMMARY OF ACCOUNTING POLICIES (Continued)

(ab) Impact of adoption of AIFRS

The impacts of adopting AIFRS on the total equity and loss after tax as reported under Australian Accounting Standards applicable before 1 January 2005 ('AGAAP') are illustrated below.

(i) Reconciliation of total equity as presented under AGAAP to that under AIFRS

	CONSOLIDATED		
	30 Jun 05	31 Dec 04	1 Jul 04
	\$	\$	\$
Total equity under AGAAP – Bluestone Tin Ltd	50,828,599	58,794,454	-
<i>Adjustments to equity:</i>			
Adjustment on accounting for reverse acquisition (A)	(9,680,823)	(9,662,569)	3,715,377
Reversal of impairment loss on fair value uplift (B)	7,428,015	-	-
Reversal of amortisation on fair value uplift (C)	994,301	-	-
Recognition of research costs as expense (D)	(160,602)	(42,025)	-
Reversal of share-based-payments to acquire finance (E)	-	(132,462)	-
Adjustment for unwinding of rehabilitation provision discount (F)	(154,456)	(122,039)	-
Adjustment for additional amortisation charge on rehabilitation asset (G)	(114,409)	-	-
Adjustment for decrement in carrying value of assets recorded under AGAAP (H)	426,745	-	-
Total equity under AIFRS	49,567,370	48,835,359	3,715,377

- (A) AASB 3 "Business Combinations" requires the consolidated entity to apply the purchase method of accounting and views the business combination from the perspective of the combining entity that is identified as the acquirer for business combinations occurring on or after 30 June 2004. Given that Bluestone Australia Pty Ltd was acquired after 30 June 2004, the consolidated entity has applied AASB 3 when accounting for this acquisition. Bluestone Tin Limited was incorporated on 23 July 2004, which acquired Bluestone Australia Pty Ltd, a company existing and operating as of 30 June 2004 on 27 July 2004. Hence, in accordance with AASB 3 Bluestone Australia Pty Ltd is identified as the "in substance" acquirer and the purchase method being applied from its perspective. Effectively therefore the consolidated entity represents the continuing business of Bluestone Australia Pty Ltd. As a result the equity of Bluestone Australia Pty Ltd as of 30 June 2004 has been reinstated and the fair value uplift accounting entries recognised in the accounts of Bluestone Tin Limited under AGAAP and the decrement in carrying value of assets recognised in its accounts during the year ended 30 June 2005 relating to the fair value uplift accounting entry is reversed.



Notes to the Half-Year Financial Statements for the Half-Year ended 31 December 2005 (continued)

1. SUMMARY OF ACCOUNTING POLICIES (Continued)

- (B) Represents impairment loss provided against fair value uplift recorded in the books under AGAAP. This impairment loss has now been reversed in line with the reversal of the fair value uplift under AASB 3 “Business Combinations”. For further details refer note 1(ab)(i)(A) above.
- (C) Amortisation charge recognised on the fair value uplift has also been reversed in line with the reversal of fair value uplift accounting entries, as explained in note 1(ab)(i)(A) above.
- (D) Under AASB 138 “Intangible Assets”, intangible assets arising from research (or from the research phase of an internal project) shall be recognised as an expense when it is incurred. Deferred research costs were capitalised under AGAAP.
- (E) Under AASB 1 “Transitional Exemptions”, AASB 2 ‘Share-Based Payments’ is applied only to equity instruments granted after 7 November 2002 that had not vested on or before 1 January 2005. The options issued to acquire finance were granted and vested in August 2004.
- (F) AASB 137 “Provisions, Contingent Liabilities and Contingent Assets”, requires recognition of full provision for rehabilitation based on the net present value of the estimated cost of restoring the environmental disturbance that has occurred up to the balance sheet date, as against an undiscounted provision for rehabilitation required to be recognised under AGAAP. The provision has been re-measured as the present value of the future expenditure.
- (G) Represents adjustment for additional amortisation charge due to increase in the value of rehabilitation asset created under AASB 137 “Provisions, Contingent Liabilities and Contingent Assets”.
- (H) Reversal of excess impairment loss provided as of 30 June 2005 under AGAAP, as compared to the impairment loss required to be provided under AASB 136 “Impairment of Assets”.



Notes to the Half-Year Financial Statements for the Half-Year ended 31 December 2005 (continued)

1. SUMMARY OF ACCOUNTING POLICIES (Continued)

(ii) Reconciliation of loss after tax under AGAAP to that under AIFRS

	CONSOLIDATED	
	30 June 05	31 December 04
	\$	\$
Loss after tax as previously reported	(33,257,410)	(595,565)
Reverse of impairment loss on fair value uplift (as above - (B))	7,428,015	-
Reversal of amortisation on fair value uplift (as above – (C))	994,301	-
Recognition of research costs as expense (as above - (D))	(160,602)	(42,025)
Reversal of share-based-payments to acquire finance (as above – (E))	164,000	31,538
Adjustment for unwinding of rehabilitation provision discount (as above – (F))	(154,456)	(122,039)
Adjustment for additional amortisation charge on rehabilitation asset (as above – (G))	(114,409)	-
Adjustment for decrement in carrying value of assets recorded under AGAAP (as above – (H))	426,745	-
Share-based-payments to employees (I)	(268,702)	(51,714)
Recognition of expenditure incurred by Bluestone Australia Pty Ltd (J)	-	(77,945)
Loss after tax under AIFRS	(24,942,518)	(857,750)

(I) Share-based-payment costs are charged to the income statement under AASB 2 “Share-based-payments”, but not under AGAAP.

(J) Represents expenditure incurred by Bluestone Australia Pty Ltd during the period 1 July 2004 till 23 July 2004 (date of incorporation of Bluestone Tin Limited). This has been adjusted to the loss for the period as previously reported under AGAAP, due to identification of Bluestone Australia Pty Ltd as acquirer under AASB 3 “Business Combinations”. For further details refer note 1(ab)(i)(A) above.

(iii) Explanation of material adjustments to the cash flow statements

There are no material differences between the cash flow statements presented under AIFRS and those presented under AGAAP.



Notes to the Half-Year Financial Statements for the Half-Year ended 31 December 2005 (continued)

2. REVENUE AND EXPENSES

Loss before income tax includes the following revenues and expenses whose disclosure is relevant in explaining the performance of the entity.

	CONSOLIDATED	
	31 December 2005	31 December 2004
	\$	\$
Revenue		
Revenue from sale of tin concentrate	10,569,204	-
Interest income - other corporations	180,206	444,422
Total	10,749,410	444,422
Other income		
Gain on disposal of property, plant and equipment	64,211	4,003
Total	64,211	4,003
Depreciation and amortisation included in cost of sales		
Depreciation	666,069	-
Amortisation	3,167,896	-
	3,833,965	-
Other expenses		
Depreciation	67,655	197,968
Expense of share-based payments	88,702	51,714
Research expenses	162,661	42,026
Management and administration costs	798,912	838,128
Other	28,927	6,109
	1,146,857	1,135,945
Finance costs		
Performance bond interest	26,600	12,611
Finance charges	152,441	35,580
Unwinding of rehabilitation provision discount	53,863	122,039
	232,904	170,230

3. DIVIDENDS PAID AND PROPOSED

Equity dividends on ordinary shares:

(a) Dividends paid during the half-year (2004:nil)	-	-
(b) Dividends proposed and not recognised as a liability	-	-
	-	-



Notes to the Half-Year Financial Statements for the Half-Year ended 31 December 2005 (continued)

4. ISSUED CAPITAL	CONSOLIDATED	
	31 December 2005 \$	30 June 2005 \$
<i>Ordinary shares</i> Issued and fully paid	82,585,537	74,241,186
	Number of shares on issue	\$
<i>Movements in ordinary shares on issue</i>		
At 1 July 2005	276,350,003	74,241,186
Issued in December 2005 against Rights Issue	110,540,000	15,475,600
Less: share issue costs	-	(7,131,249)
At 31 December 2005	386,890,003	82,585,537

5. SEGMENT REPORTING

The Consolidated Entity is involved in the production of tin in concentrate and operates solely within Australia.

6. CONTINGENT ASSETS AND LIABILITIES

Since the last annual reporting date, there has been no material change in any contingent liabilities or contingent assets.

7. EVENTS AFTER THE BALANCE SHEET DATE

On 30 January 2006 the directors of the Company obtained shareholder approval to issue 67,500,000 unlisted convertible notes for the value of \$13,500,000. The convertible notes were issued to note holders on 13 February 2006.

8. ADDITIONAL INFORMATION

Reconciliation of Cash

For the purposes of the Condensed Cash Flow Statement, cash and cash equivalents comprise the following at 31 December 2005:

	CONSOLIDATED	
	31 December 2005 \$	31 December 2004 \$
Cash at bank and in hand	5,572,770	4,486,360
Short-term deposits	-	18,000,000
	5,572,770	22,486,360



Directors' Declaration

In accordance with a resolution of the directors of Bluestone Tin Limited, I state that:

In the opinion of the directors:

- (a) the financial statements and notes of the consolidated entity:
 - (i) give a true and fair view of the financial position as at 31 December 2005 and the performance for the half-year ended on that date of the consolidated entity; and
 - (ii) comply with Accounting Standard AASB 134 "Interim Financial Reporting" 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.

On behalf of the Board

Peter G Cook
Managing Director

Perth 2 March 2006



Independent Review Report



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Independent review report to members of Bluestone Tin Limited

Scope

The financial report and directors' responsibility

The financial report comprises the balance sheet, income statement, cash flow statement, statement of changes in equity and accompanying notes to the financial statements for the consolidated entity comprising both Bluestone Tin Limited (the company) and the entities it controlled during the half-year ended 31 December 2005, and the directors' declaration for the company, for the half-year ended 31 December 2005.

The directors of the company are responsible for preparing a financial report that gives a true and fair view of the financial position and performance of the consolidated entity, and that complies with Accounting Standard AASB 134 "Interim Financial Reporting", in accordance with the Corporations Act 2001. This includes responsibility for the maintenance of adequate accounting records and internal controls that are designed to prevent and detect fraud and error, and for the accounting policies and accounting estimates inherent in the financial report.

Review approach

We conducted an independent review of the financial report in order to make a statement about it to the members of the company, and in order for the company to lodge the financial report with the Australian Stock Exchange and the Australian Securities and Investments Commission.

Our review was conducted in accordance with Australian Auditing Standards applicable to review engagements, in order to state whether, on the basis of the procedures described, anything has come to our attention that would indicate that the financial report is not presented fairly in accordance with the Corporations Act 2001, Accounting Standard AASB 134 "Interim Financial Reporting" and other mandatory financial reporting requirements in Australia, so as to present a view which is consistent with our understanding of the consolidated entity's financial position, and of its performance as represented by the results of its operations and cash flows.

A review is limited primarily to inquiries of company personnel and analytical procedures applied to the financial data. These procedures do not provide all the evidence that would be required in an audit, thus the level of assurance is less than given in an audit. We have not performed an audit and, accordingly, we do not express an audit opinion.

Independence

We are independent of the company, and have met the independence requirements of Australian professional ethical pronouncements and the Corporations Act 2001. We have given to the directors of the company a written Auditor's Independence Declaration, a copy of which is included in the Directors' Report. The Auditors' Independence Declaration would have been expressed in the same terms if it had been given to the directors at the date this audit report was signed.



Statement

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the financial report of the consolidated entity, comprising Bluestone Tin Limited and the entities it controlled during the half-year ended 31 December 2005 is not in accordance with:

- (a) the Corporations Act 2001, including:
 - (i) giving a true and fair view of the financial position of the consolidated entity at 31 December 2005 and of its performance for the half-year ended on that date; and
 - (ii) complying with Accounting Standard AASB 134 "Interim Financial Reporting" and the Corporations Regulations 2001; and
- (b) other mandatory financial reporting requirements in Australia.

Ernst & Young

G H Meyerowitz
Partner
Perth

2 March 2006