BLUESTONE TIN LIMITED
ACN 110 150 055

# Quarterly Activities Report
# Period Ending – June 30, 2006
## Highlights

- Bluestone Tin Limited is a growing mining company with Tin mining projects in Far North Queensland (Collingwood) and Tasmania (Renison, Mt Bischoff and Rentails) and is committed to bringing Australia's Tin industry from a zero base to a significant position in the world Tin industry.
- During the quarter Bluestone continued with the ramp up of its Collingwood Tin Mine. Production continued to be impeded by delays in the establishment of the primary ventilation shaft and related emergency egress. Ore stoping activities cannot commence until these are established and functional. As a consequence mine production was limited to force ventilated development headings. During this period the Company has completed most of the capital development for the mine.
- The Collingwood Mine produced a total of 329 tonnes of Tin Concentrates (64.7% Sn grade) during the quarter.
- Total revenue for the group for the quarter was $2.32 million.
- Subsequent to the end of the quarter, the primary vent shaft achieved breakthrough and the primary ventilation and emergency escapeway is currently being established. Stoping is expected to commence in early August, finally paving the way for the project to achieve full production. Operational performance from the project for the quarter in summary was:

| **Production Statistics** | June 2006 Quarter |
|---|---|
| Ore Processed (t) | 30,756 |
| Head Grade (% Sn) | 0.94% |
| Concentrate Produced (t) | 329 |
| Recovery to Conc. | 74% |
| Concentrate Grade (% Sn) | 64.7% |
| Recovered Metal (t Sn) | 213 |
| **Concentrate Sales** | |
| Contained Tin Metal | 194 |
| Revenue Received | A$2.32M |
| Average Price Received | A$11,900/t |

- Dow Jones reported on 20 July 2006 that the global tin market recorded a deficit of 6500 tonnes in the period January to May 2006 notwithstanding the resumption of unofficial production in Indonesia following the end of the monsoon season. Global tin demand was reported by Dow Jones as increasing by 26,000 tonnes over the period with an increase in demand in China of 26%, Japan 30% and USA 26%.
- Bluestone continued with the assessment of the re-start of its Tasmanian Tin Strategy, incorporating the Renison and Mt Bischoff Tin Mines in Tasmania. Detailed metallurgical and mine planning is underway.

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- On 1 May 2006 Bluestone and Metals Exploration Limited ("Metals Ex") announced a proposed merger by scheme of arrangement to create a larger and more diversified mining and exploration group. Subsequent to the merger being announced there has been significant volatility in the commodity markets and the share prices of both entities. Bluestone has also experienced delays in the completion of its primary vent shaft /emergency egress, and as a consequence, mine production at Collingwood has been restricted during this period. Both companies are presently waiting on completion of the expert's reports commissioned to meet the requirements of the Corporations Law and the ASX Listing Rules. Once those reports have been received it will be determined if any adjustment to the consideration is required.
- The Rentails Project continued to advance with excellent results received from gravity testwork and in particular ultra-fine high gravity ("UF") separation technology. Samples tested suggested very positive recoveries and grades which in most instances were superior to the current Cassiterite floatation process route. This creates significantly more process flexibility and processing options available for the treatment of the historical tailings at Renison.

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## CORPORATE

Bluestone Tin Limited is a growing mining company with Tin mining projects in Far North Queensland (Collingwood) and Tasmania (Renison, Mt Bischoff and Rentails). The company is committed to bringing Australia's Tin industry from a zero base to a significant position in the world Tin industry.

The delays in the commencement of full mine production at Collingwood has reduced expected cash flows from the project and Bluestone has endured another full quarter with significant operating costs and reduced revenue. The breakthrough of the primary vent shaft was established in July and production stoping will commence in early August. These delays have necessitated the Company borrowing on an unsecured basis to meet its working capital requirements. At the end of the quarter unsecured loans amounted to $7.75 million.

In a joint announcement with Metals Exploration Ltd made prior to the release of this quarterly report, a progress update on the proposed merger was made. The Boards of both companies are working towards completing the merger and continue to support the merger proposal. The companies have common management, common major shareholders, share offices and have similar business models and strategies. Both companies are undiversified from a commodity perspective and each is significantly linked to the fortunes of their respective metal prices. The merger will diversify the commodity exposure of shareholders in both companies and create a larger group with an enhanced portfolio of development projects and will provide a clear uncompromised path to growth.

Subsequent to the merger being announced there has been significant volatility in the commodity markets and the share prices of both entities. Bluestone has also experienced delays in the completion of its primary vent shaft /emergency egress and as a consequence mine production at Collingwood has been restricted during this period.

Both companies are presently waiting on completion of the expert's reports commissioned to meet the requirements of the Corporations Law and the ASX Listing Rules. Once those reports have been received it will be determined if any adjustment to the consideration is required.

## COLLINGWOOD TIN PROJECT (Queensland)

The Collingwood Tin Project is located in Far North Queensland approximately 30 km south of Cooktown. The company completed construction of the Tin Concentrator and began the shipment of concentrates from the site in the previous quarter.

As was highlighted in the previous quarter, mine production has been constrained by the requirement to complete the primary vent shaft and establish emergency egress before stoping production could commence. It was anticipated the vent shaft would break through in the middle of the June quarter and this would be the catalyst for the commencement of stoping and increase in mine production to expected levels. Unfortunately, due to difficult ground conditions and requirement to concrete each metre of advance this target was not met. Breakthrough was achieved in early July and the establishment of egress and primary ventilation is now at an advanced state with stoping expected to commence in early August.

Consequently, the project has been limited to production in force ventilated development drives, constraining mine production to approximately one-third of expected production. Mine management took the opportunity for underground development to be significantly advanced ahead of stoping and development is essentially completed for the next 2 years of production.



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Productivity from the operations for the quarter is summarised as follows:

| **Production Statistics** | June 2006 Quarter |
|---|---|
| **Mining** | |
| Ore Mined (t) | 25,080 |
| Grade (% Sn) | 1.22% |
| Contained Sn (t) | 306 |
| **Tin Concentrator** | |
| Ore Processed (t) | 30,756 |
| Head Grade (% Sn) | 0.94% |
| Concentrate Produced (t) | 329 |
| Recovery to Conc. | 74% |
| Concentrate Grade (% Sn) | 64.7% |
| Recovered Metal (t Sn) | 213 |
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| Contained Tin Metal | 194 |
| Revenue Received | A$2.32M |
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The processing plant, despite being operated on "as required" basis during the quarter proved it was capable of operating at design capacity and performance. Output from the operation is expected to improve significantly in the next quarter, as the commencement of stoping enables mine production to increase to expected levels.

## TASMANIAN TIN STRATEGY

***Renison & Mt. Bischoff Tin Projects***

Mining and processing operations at the Renison Tin Project, Tasmania, were temporarily suspended due to falling commodity prices and productivity issues on October 3, 2005. Bluestone elected to suspend the operations in such a manner that it could re-start the Renison operations at the same capacity and productivity levels if the tin price recovers to more viable and sustainably higher levels. The spot tin price at the time was US$6,580 per tonne having traded as low as US$6,335 per tonne.

The tin price has retreated a small amount from its recovery to US$9,400 in April 2006 but remains at US$8,300 per tonne at the date of this report. At these levels Renison is capable of being brought back into production, although Bluestone remains cautious in ensuring that the current prices driven by supply demand fundamentals are sustainable in the long term.

Bluestone has continued with its assessment study for the re-start of the Renison Tin Mine and work on the commencement of mining at the nearby Mt Bischoff Tin Mine in Tasmania is continuing with the environmental management plan anticipated to be lodged with the Tasmanian government shortly. In the mean time, the project remains on in an advanced state of care and maintenance.

In preparations for the restart, a primary surface crushing circuit and the existing contract crushing circuit and loaders have been purchased. Significant surface works to establish the site with an integrated four (4) stage crushing circuit to suit the operations with the addition of Mt Bischoff ores have been established.



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***Rentails Project***

The Rentails Project involves the use of modern processing methods and technology to recover and re-process decades of tin-bearing residues and tailings from tailings storage facilities at the Renison Tin Project. The total reserves in these tailings storage facilities amounts to approximately 17.9 million tonnes at 0.42% tin containing 75,000 tonnes of tin metal. The Rentails Project aims to recover 55% of this tin and process concentrates into a saleable product through the use of a Tin fuming plant.

The testwork program during the quarter continued to build on the positive results achieved in the previous quarter through the use of ultra-fine gravity technology (UF Falcon). Further scouting testwork was completed to validate the entire proposed processing route through to production of concentrate. Final concentrate grades of over 10% Sn were achieved at recoveries of over 40% without any stage optimisation, nor any stream recycling. The nominal processing route used for this testwork consists of sulphide mineral flotation, classification, grinding, ultra-fine gravity concentration and final Tin flotation. Bluestone is extremely encouraged by the results and is confident that with stage by stage optimisation, the target of 55% recovery into a suitable Tin fuming feed product can be achieved. What is of most significance is that the introduction of the UF concentrating has resulted in significant improvement in the Tin flotation kinetics as all of the low specific gravity material that was previously effecting the kinetics is now eliminated by the ultra fine gravity separation stage.

Focus has now moved to optimising the stage recoveries of each unit of process and as such the first step has been to review the mineralogy of all of the products streams to determine if they are reporting to the right place. Extensive mineralogical work commenced during the quarter to determine the tin and gangue mineral occurrence in all testwork streams. Initial XRD analysis of tailings material determined that the primary oxide mineral species are Quartz, Biotite, Siderite and Mg, Al Silicate minerals, while the primary sulphide mineral is Pyrrhotite (both magnetic and non-magnetic). Mineralogical analysis of sulphide flotation tailings demonstrated that in the +53µm fractions less than 10% of the total tin-bearing minerals are liberated, with most tin associated with Quartz or Pyrrhotite. In particle sizes less than 53µm, the tin is mostly liberated with the remaining Tin locked with Quartz and other oxide gangue. Work has therefore commenced on optimising the grinding of the +53 µm and on optimising the separation of the liberated Tin in the-53µm material through each stage of the process.

**Ultra fines recovery from Renison Concentrator**

Testwork continued during the quarter to evaluate the recovery of fine Tin from the current Renison concentrator once operations recommence. Size-by-size analysis was conducted on work carried out during the last quarter on one of the main tailings streams (slimes tails) using the ultra-fine gravity concentrator. Each of the particle size fraction from the products of the slimes tails testwork was analysis and assayed. The results demonstrate that the UF Falcon is efficient at the recovery of cassiterite down to about 6µm particle sizes. This could result in much improved recoveries of Tin from the Renison Concentrator as currently only Tin particles greater than approximately 15µm can be recovered, while this new application will enable recovery of material to as low as 4µm. Approximately 25% of the current Tin losses are within the Slimes tail stream of which most of this is greater than 4 µm in size.

---------- **End** ----------



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*Rule 5.3*

# Appendix 5B

## Mining exploration entity quarterly report

Introduced 1/7/96. Origin: Appendix 8. Amended 1/7/97, 1/7/98, 30/9/2001.

Name of entity

**Bluestone Tin Limited**

| ABN | Quarter ended ("current quarter") |
|---|---|
| **25 110 150 055** | 30 June 2006 |

### Consolidated statement of cash flows

| | | Current quarter $A'000 | Year to date $A'000 |
|---|---|---|---|
| **Cash flows related to operating activities** | | | |
| 1.1 | Receipts from product sales and related debtors | 2,269 | 13,342 |
| 1.2 | Payments for (a) exploration and evaluation | (28) | (184) |
| | (b) development | (1,224) | (17,244) |
| | (c) production | (5,457) | (27,510) |
| | (d) administration | (638) | (2,413) |
| 1.3 | Dividends received | | |
| 1.4 | Interest and other items of a similar nature received | 62 | 314 |
| 1.5 | Interest and other costs of finance paid | (298) | (664) |
| 1.6 | Income taxes paid | | |
| 1.7 | Other (provide details if material) | 40 | 106 |
| | **Net Operating Cash Flows** | (5,274) | (34,253) |
| | **Cash flows related to investing activities** | | |
| 1.8 | Payment for purchases of: (a) prospects (b) equity investments (c) other fixed assets | (1,100) | (13,256) |
| 1.9 | Proceeds from sale of: (a) prospects (b) equity investments (c) other fixed assets | | |
| 1.10 | Loans to other entities | | |
| 1.11 | Loans repaid by other entities | | |
| 1.12 | Other (provide details if material) | | |
| | **Net investing cash flows** | (1,100) | (13,256) |
| 1.13 | Total operating and investing cash flows (carried forward) | (6,374) | (47,509) |



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| | | | |
|---|---|---|---|
| 1.13 | Total operating and investing cash flows (brought forward) | (6,374) | (47,509) |
| | **Cash flows related to financing activities** | | |
| 1.14 | Proceeds from issues of shares, options, etc. | 4 | 15,479 |
| 1.15 | Proceeds from sale of forfeited shares | | |
| 1.16 | Proceeds from borrowings | 4,745 | 21,250 |
| 1.17 | Repayment of borrowings | | (49) |
| 1.18 | Dividends paid | | |
| 1.19 | Other – (capital raising costs) | | (819) |
| | **Net financing cash flows** | 4,749 | 35,861 |
| | **Net increase (decrease) in cash held** | (1,625) | (11,648) |
| 1.20 | Cash at beginning of quarter/year to date | 7,346 | 17,369 |
| 1.21 | Exchange rate adjustments to item 1.20 | | |
| 1.22 | **Cash at end of quarter** | 5,721 | 5,721 |

**Payments to directors of the entity and associates of the directors**
**Payments to related entities of the entity and associates of the related entities**

| | | Current quarter $A'000 |
|---|---|---|
| 1.23 | Aggregate amount of payments to the parties included in item 1.2 | 120 |
| 1.24 | Aggregate amount of loans to the parties included in item 1.10 | |

1.25 Explanation necessary for an understanding of the transactions

The YTD development expenditure relates to underground capital development. The majority of the plant & equipment expenditure for the quarter relates to the pre-production construction at the Collingwood Tin mine in Queensland.

**Non-cash financing and investing activities**

2.1 Details of financing and investing transactions which have had a material effect on consolidated assets and liabilities but did not involve cash flows

2.2 Details of outlays made by other entities to establish or increase their share in projects in which the reporting entity has an interest



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## Financing facilities available

*Add notes as necessary for an understanding of the position.*

| | | Amount available $A'000 | Amount used $A'000 |
|---|---|---|---|
| 3.1 | Loan facilities | 7,200 | 5,475 |
| | Related Party Loan | 4,450 | 4,450 |
| 3.2 | Credit standby arrangements | 0 | 0 |

## Estimated cash outflows for next quarter

| | | $A'000 |
|---|---|---|
| 4.1 | Exploration and evaluation | 24 |
| 4.2 | Development | 107 |
| | **Total** | **131** |

## Reconciliation of cash

| Reconciliation of cash at the end of the quarter (as shown in the consolidated statement of cash flows) to the related items in the accounts is as follows. | | Current quarter $A'000 | Previous quarter $A'000 |
|---|---|---|---|
| 5.1 | Cash on hand and at bank | 5,721 | 7,346 |
| 5.2 | Deposits at call | | |
| 5.3 | Bank overdraft | | |
| 5.4 | Other (provide details) | | |
| | **Total: cash at end of quarter** (item 1.22) | 5,721 | 7,346 |

## Changes in interests in mining tenements

| | | Tenement reference | Nature of interest (note (2)) | Interest at beginning of quarter | Interest at end of quarter |
|---|---|---|---|---|---|
| 6.1 | Interests in mining tenements relinquished, reduced or lapsed | Nil | | | |
| 6.2 | Interests in mining tenements acquired or increased | Nil | | | |



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**Issued and quoted securities at end of current quarter**

*Description includes rate of interest and any redemption or conversion rights together with prices and dates.*

| | | Total number | Number quoted | Issue price per security (see note 3) (cents) | Amount paid up per security (see note 3) (cents) |
|---|---|---|---|---|---|
| 7.1 | **Preference** +**securities** *(description)* | - | | | |
| 7.2 | Changes during quarter (a) Increases through issues (b) Decreases through returns of capital, buy-backs, redemptions | | | | |
| 7.3 | +**Ordinary securities** | 388,418,003 | 312,045,501 | | |
| 7.4 | Changes during quarter (a) Increases through issues (b) Decreases through returns of capital, buy-backs | 520,000 | 520,000 | 20 cents | 20 cents |
| 7.5 | +**Convertible debt securities** (*description)* | 66,000,000 | | 20 cents | 20 cents |
| 7.6 | Changes during quarter (a) Increases through issues (b) Decreases through securities matured, converted | 500,000 | | 20 cents | 20 cents |
| 7.7 | **Options** *(description and conversion factor)* | 110,512,000<br>5,332,500<br>10,667,500<br>1,750,000<br>2,200,000<br>1,500,000<br>900,000 | 110,512,000 | *Exercise price*<br>*20 cents*<br>*25 cents*<br>*25 cents*<br>*30 cents*<br>*28 cents*<br>*20 cents*<br>*34 cents* | *Expiry date*<br>*31/12/2008*<br>*30/06/2009*<br>*30/06/2009*<br>*30/06/2008*<br>*31/01/2010*<br>*12/02/2010*<br>*30/04/2010* |
| 7.8 | Issued during quarter | 900,000<br>500,000 | | *34 cents*<br>*20 cents* | *30/04/2010*<br>*12/02/2010* |
| 7.9 | Exercised during quarter | 20,000 | 20,000 | *20 cents* | *31/12/2008* |
| 7.10 | Expired during quarter | *1,350,000*<br>*540,000*<br>*1,000,000* | | *30 cents*<br>*30cents*<br>*28 cents* | *30/06/2006*<br>*30/06/2008*<br>*31/01/2010* |
| 7.11 | **Debentures** *(totals only)* | | | | |
| 7.12 | **Unsecured notes** *(totals only)* | | | | |



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**Compliance statement**

1 This statement has been prepared under accounting policies which comply with accounting standards as defined in the Corporations Act or other standards acceptable to ASX (see note 4).

2 This statement does /~~does not~~* give a true and fair view of the matters disclosed.

Sign here: P G Cook (Director) Date: 31 July 2006

Print name: **PETER GERARD COOK**

**Notes**

1 The quarterly report provides a basis for informing the market how the entity's activities have been financed for the past quarter and the effect on its cash position. An entity wanting to disclose additional information is encouraged to do so, in a note or notes attached to this report.

2 The "Nature of interest" (items 6.1 and 6.2) includes options in respect of interests in mining tenements acquired, exercised or lapsed during the reporting period. If the entity is involved in a joint venture agreement and there are conditions precedent which will change its percentage interest in a mining tenement, it should disclose the change of percentage interest and conditions precedent in the list required for items 6.1 and 6.2.

3 **Issued and quoted securities** The issue price and amount paid up is not required in items 7.1 and 7.3 for fully paid securities.

4 The definitions in, and provisions of, *AASB 1022: Accounting for Extractive Industries* and *AASB 1026: Statement of Cash Flows* apply to this report.

5 **Accounting Standards** ASX will accept, for example, the use of International Accounting Standards for foreign entities. If the standards used do not address a topic, the Australian standard on that topic (if any) must be complied with.

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