

# **SYLVANIA RESOURCES LIMITED**

A.C.N. 091 415 968



**HALF YEARLY REPORT  
31<sup>ST</sup> DECEMBER 2004**

**SYLVANIA RESOURCES LIMITED  
AND ITS CONTROLLED ENTITIES**

**CORPORATE DIRECTORY**

<b>DIRECTORS</b>	A.S Paul K.S Huntly G.M Button E Kirby E Nealon (appointed 7 December 2004) M Sturgess (appointed 7 December 2004)
<b>COMPANY SECRETARY</b>	M Langoulant
<b>REGISTERED OFFICE</b>	Level 4, HPPL House 28-42 Ventnor Avenue WEST PERTH WA 6005  Telephone: (08) 9481 8711 Facsimile: (08) 9324 2977
<b>AUDITORS</b>	HLB Mann Judd 15 Rheola Street WEST PERTH WA 6005
<b>LAWYERS TO THE COMPANY</b>	Clayton Utz QV1 250 St. Georges Tce Perth WA 6000 Australia
<b>SHARE REGISTRY</b>	Computershare Investor Services Pty Ltd Reserve Bank Building Level 2 45 St George's Terrace PERTH WA 6000
<b>ASX CODES</b>	Shares: SLV Option: SLVO

## **DIRECTORS' REPORT**

The Directors present their report for the half-year ended 31<sup>st</sup> December 2004.

### **DIRECTORS**

The names of the Directors of the Company in office during the half-year and until the date of this report are:

Adrian Paul, Grant Button, Scott Huntly, Evan Kirby, Ed Nealon and Melissa Sturgess.

Mr Nealon and Ms Sturgess were appointed 7 December 2004.

### **REVIEW AND RESULTS OF OPERATIONS**

The Consolidated loss of the consolidated entity after provision for income tax was \$326,624 (2003 - \$244,544).

#### **Review of Operations**

#### **Chromite Tailings Retreatment Consortium ("RK1")**

##### **Highlights**

- **Plant construction completed on schedule in December 2004**
- **Commissioning completed and production commenced 13 January 2005**
- **First Platinum Group Metal ("PGM") concentrate despatched on 21 January 2005**

Sylvania Resources Limited ("Sylvania") owns a 25% interest in a consortium (known as RK1) led by Aquarius Platinum Limited which treats chromite tailings through a purpose built plant adjacent to its Kroondal Mine in order to extract platinum group metals (platinum, palladium, rhodium and gold).

The construction of the processing facilities progressed according to schedule during the half-year, and was substantially completed by early December 2004. Plant commissioning then commenced and routine production operations were established by mid January 2005.

The first concentrate production from the RK1 project was shipped on 21 January 2005. The production rate is now building up as the operators gain operational experience with the plant.

The initial year of the project is expected to yield in excess of 20,000 ounces of PGM's, growing to 28,000 ounces per year from the second year, with 25% of the production attributable to Sylvania.

The project economics for the RK1 project are very robust over a wide range of metal price and exchange rate assumptions. Conservative modelling gave an after-tax internal rate of return of 72% at a basket price of US\$521 per PGM ounce with an exchange rate of R7/US\$1. The current PGM basket price for RK1 material sits at around US\$740 per ounce which is a significant premium to the preferred price used in the model and more than compensates for the current Rand Dollar exchange rate of R5.8/US\$1.

Please refer to the Sylvania Resources Limited website at [www.sylvaniresources.com](http://www.sylvaniresources.com) for photographs providing regular updates on the progress of the operations.

### **Western Australia**

Previous exploration by Sylvania within Australia has been focused on the Archean Sylvania Inlier, situated in Western Australia. Within this area the Company still retains mineral exploration projects known as Copper Knob and Jimblebar. The projects lie east and south of Newman and are located within the Peak Hill Mineral Field. Exploration on these tenements has targeted gold, copper-zinc, nickel and platinum group element mineralization.

During the half-year, Sylvania entered into an Option Agreement with Warwick John Flint ("Flint") over all of the Australian tenements of Sylvania at Jimblebar and Copper Knob. Under the terms of the Option Agreement, Flint has the right to exercise the Option at any time up until 16 August 2005, to acquire Sylvania's interests in its Australian tenements for the consideration of A\$55,000, and the issuance to Sylvania of fully paid ordinary shares in a listed entity to the value of A\$200,000. Flint has the obligation to maintain its tenements in good standing during the life of the Option Agreement. Flint has the right to extend the Option Agreement for a further 12 month period, until 16 August 2006, through the payment of A\$10,000 and the share consideration on exercise increasing to A\$300,000.

Sylvania entering into this Option Agreement is consistent with the Board's stated intention of focusing its attention on the activities of the RK1 Consortium, and other opportunities to develop further chromite retreatment projects.

No field work was undertaken by the Company on its Australian tenements during the half year.

**AUDITORS' INDEPENDENCE DECLARATION**

Section 307C of the Corporations Act 2001 requires our auditors, HLB Mann Judd, to provide the directors of the company with an Independence Declaration in relation to the review of the half-year financial report. This Independence Declaration is set out on page 13 and forms part of this directors' report for the half-year ended 31 December 2004.

Dated at Perth this 8<sup>th</sup> day of March 2005.

Signed in accordance with a resolution of the Directors.



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**G BUTTON**  
**Managing Director**

**CONSOLIDATED STATEMENT OF FINANCIAL PERFORMANCE  
FOR THE HALF-YEAR ENDED 31 DECEMBER 2004**

	Note	Half Year Ended 31 Dec 2004 \$	Half Year Ended 31 Dec 2003 \$
<b>Revenue from ordinary activities</b>	3	125,024	8,687
Administration		(69,089)	(68,588)
Consultancies		(190,768)	(45,936)
Employee benefits		(57,393)	-
Exploration costs refunded/(written off)		-	(9,308)
Insurance		(27,737)	(14,288)
Project development		(106,661)	(115,111)
<b>Profit/(loss) from ordinary activities before income tax expense</b>		(326,624)	(244,544)
Income tax expense		-	-
<b>Profit/(loss) from ordinary activities after income tax expense</b>		(326,624)	(244,544)
<b>Net Profit/(loss)</b>		(326,624)	(244,544)
<b>Total changes in equity other than those resulting from transactions with owners as owners</b>		(326,624)	(244,544)
		<u>Cents</u>	<u>Cents</u>
Basic earnings per share		(0.63)	(0.84)
Diluted earnings per share		(0.63)	(0.84)

*The above Consolidated Statement of Financial Performance should be read in conjunction with the accompanying notes.*

**CONSOLIDATED STATEMENT OF FINANCIAL POSITION**  
**AS AT 31 DECEMBER 2004**

	<b>31 Dec 2004</b>	<b>30 June 2004</b>
	<u>\$</u>	<u>\$</u>
<b>Current assets</b>		
Cash	2,159,108	4,023,120
Receivables	310,314	7,493
	<u>2,469,422</u>	<u>4,030,613</u>
<b>Total current assets</b>		
<b>Non-current assets</b>		
Investments - other	21,519	21,519
Investment in joint venture entity	4,499,849	2,530,828
Exploration expenditure	250,000	250,000
	<u>4,771,368</u>	<u>2,802,347</u>
<b>Total non-current assets</b>		
<b>Total assets</b>	<u>7,240,790</u>	<u>6,832,960</u>
<b>Current liabilities</b>		
Payables	923,654	189,200
	<u>923,654</u>	<u>189,200</u>
<b>Total current liabilities</b>		
<b>Total liabilities</b>	<u>923,654</u>	<u>189,200</u>
<b>Net assets</b>	<u>6,317,136</u>	<u>6,643,760</u>
<b>Equity</b>		
Contributed equity	11,957,781	11,957,781
Reserves	285,375	285,375
Accumulated losses	(5,926,020)	(5,599,396)
	<u>6,317,136</u>	<u>6,643,760</u>
<b>Total equity</b>		

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

**CONSOLIDATED STATEMENT OF CASH FLOWS  
FOR HALF YEAR ENDED 31 DECEMBER 2004**

	<b>Half-Year Ended 31 Dec 2004 Inflows/ (Outflows) \$</b>	<b>Half-Year Ended 31 Dec 2003 Inflows/ (Outflows) \$</b>
<b>Cash flows from operating activities</b>		
Receipts from debtors	21,721	43,837
Interest received	68,962	8,687
Payments to suppliers and employees	(515,272)	(376,480)
<b>Net cash outflow from operating activities</b>	<b>(424,589)</b>	<b>(323,956)</b>
<b>Cash flows from investing activities</b>		
Investment in joint venture entity	(1,151,923)	-
Exploration and evaluation expenditure/(refund)	10,221	(9,308)
Loan to others	(297,721)	-
<b>Net cash outflow from investing activities</b>	<b>(1,439,423)</b>	<b>(9,308)</b>
<b>Cash flows from financing activities</b>		
Proceeds from borrowings	-	104,156
<b>Net cash inflow/(outflow) from financing activities</b>	<b>-</b>	<b>104,156</b>
<b>Net increase/(decrease) In cash held</b>	<b>(1,864,012)</b>	<b>(229,108)</b>
<b>Cash at the beginning of reporting period</b>	<b>4,023,120</b>	<b>511,322</b>
<b>Cash at the end of the reporting period</b>	<b>2,159,108</b>	<b>282,214</b>

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



**NOTES TO AND FORMING PART OF THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE HALF-YEAR ENDED 31 DECEMBER 2004**

**1. BASIS OF PREPARATION OF HALF-YEAR FINANCIAL REPORT**

This general purpose financial report for the interim half-year reporting period ended 31 December 2004, has been prepared in accordance with Accounting Standard AASB 1029: *Interim Financial Reporting*, other mandatory professional reporting requirements (Urgent Issues Group Consensus Views) other authoritative pronouncements of the Australian Accounting Standards Board and the Corporations Act 2001.

This interim financial report does not include all the notes of the type normally included in an annual financial report. Accordingly, this report is to be read in conjunction with the Annual Report for the year ended 30 June 2004 and any public announcements made by Sylvania Resources Limited during the interim reporting period in accordance with the continuous disclosure requirements of the Corporations Act 2001.

The accounting policies are consistent with those of the previous financial year.

**2. ADOPTION OF AUSTRALIAN EQUIVALENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS**

Australia is currently preparing for the introduction of International Financial Reporting Standards (IFRS) effective for financial periods commencing 1 January 2005. This requires the production of accounting data for future comparative purposes at the beginning of the next financial year.

The Company's management is assessing the significance of these changes and preparing for their implementation. An IFRS committee will be established to oversee and manage the Consolidated Entity's transition to IFRS. The Company will seek to keep stakeholders informed as to the impact of these new standards as they are finalised. The directors are of the opinion that the key differences in the Consolidated Entity's accounting policies which will arise from the adoption of IFRS are:

*Impairment of Assets*

The Consolidated Entity currently determines the recoverable amount of an asset on the basis of undiscounted net cash flows that will be received from the assets' use and subsequent disposal. In terms of AASB 136: *Impairment of Assets*, the recoverable amount of an asset will be determined as the higher of fair value less costs to sell and value in use. It is likely that this change in accounting policy will lead to impairments being recognised more often than under the existing policy.

**NOTES TO AND FORMING PART OF THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE HALF-YEAR ENDED 31 DECEMBER 2004**

**2. ADOPTION OF AUSTRALIAN EQUIVALENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS (cont)**

*Income Tax*

Currently, the Consolidated Entity adopts the liability method of tax-effect accounting whereby the income tax expense is based on the accounting profit adjusted for any permanent differences. Timing differences are currently brought to account as either a provision for deferred income tax or future income tax benefit. Under AASB 112: *Income Taxes*, the Consolidated Entity will be required to adopt a balance sheet approach under which temporary differences are identified for each asset and liability rather than the effects of the timing and permanent differences between taxable income and accounting profit.

The Consolidated Entity also has carried forward income tax losses which have not been recognised as deferred tax assets as they do not satisfy the “virtually certain” test under current Australian Accounting Standards. Under AASB 112, it will be easier to recognise these tax losses as deferred tax assets due to the recognition test being based on whether it is “probable” that the losses will be recovered.

*Share-based Payment*

Although share based compensation does not form part of the remuneration of directors/employees of the Consolidated Entity the Consolidated Entity currently does not recognise an expense for any share-based compensation granted. Under AASB 2: *Share-Based Payments*, the Consolidated Entity will be required to recognise an expense for such share-based compensation. Share-based compensation is measured at the fair value of the share options determined at grant date and recognised over the expected vesting period of the options. A reversal of the expense will be permitted to the extent that non-market based vesting conditions such as service are not met.

**NOTES TO AND FORMING PART OF THE CONSOLIDATED FINANCIAL  
STATEMENTS FOR THE HALF-YEAR ENDED 31 DECEMBER 2004**

**3. SEGEMENT REPORT**

The consolidated entity currently operates in both South Africa and Australia.

	South Africa \$	Australia \$	Consolidated \$
<b>Half-year 2004</b>			
Total segment revenue	45,841	79,183	125,024
Segment result	(60,948)	(265,676)	(326,624)
<b>Half-year 2003</b>			
Total segment revenue	-	8,687	8,687
Segment result	(115,111)	(129,433)	(244,544)

**SYLVANIA RESOURCES LIMITED  
AND ITS CONTROLLED ENTITIES**

**DIRECTORS' DECLARATION**

In the Directors' opinion:

- a) the financial statements and notes set out on pages 6 to 11 are in accordance with the *Corporations Act 2001*, including:
  - (i) complying with Accounting Standards, the *Corporations Regulations 2001* and other mandatory professional reporting requirements; and
  - (ii) giving a true and fair view of the consolidated entity's financial position as at 31 December 2004 and of its performance, as represented by the results of its operations and its cash flows, for the half-year ended on that date; and
  
- b) there are reasonable grounds to believe that Sylvania Resources Limited will be able to pay its debts as and when they become due and payable.

This declaration is made in accordance with a resolution of the Directors.



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**G BUTTON**  
**Managing Director**

Dated at Perth, 8<sup>th</sup> March 2005.

## Auditors' Independence Declaration

As lead auditor for the review of the financial report of Sylvania Resources Ltd for the half year ended 31 December 2004, I declare that to the best of my knowledge and belief, there have been:

- a) no contraventions of the auditor independence requirements of the Corporations Act 2001 in relation to the review; and
- b) no contraventions of any applicable code of professional conduct in relation to the review.

This declaration is in respect of Sylvania Resources Ltd.



Perth, Western Australia  
8 March 2005

WM Clark  
Partner, HLB Mann Judd

## INDEPENDENT REVIEW REPORT

### To the Members of SYLVANIA RESOURCES LIMITED

#### Scope

##### *The financial report and directors' responsibility*

The financial report comprises the statement of financial position, statement of financial performance, statement of cash flows, accompanying notes to the financial statements and the directors' declaration of Sylvania Resources Limited for the half-year ended 31 December 2004. The financial report includes the consolidated financial statements of the consolidated entity comprising the company and the entities it controlled at the end of the half-year or from time to time during the half-year.

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 company and that complies with Accounting Standard AASB 1029 "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 1029 "Interim Financial Reporting" and other mandatory professional reporting requirements in Australia and statutory requirements, so as to present a view which is consistent with our understanding of the company'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.

(cont'd)

**Statement**

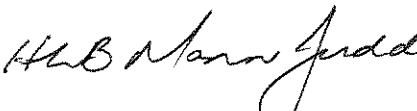
Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the financial report of Sylvania Resources Limited, is not in accordance with:

(a) the Corporations Act, including:

- (i) giving a true and fair view of the consolidated entity's financial position at 31 December 2004 and of its performance for the half-year ended on that date; and
- (ii) complying with Accounting Standard AASB 1029 "Interim Financial Reporting" and the Corporations Regulations 2001; and

(b) other mandatory financial reporting requirements in Australia.

Perth, Western Australia  
8 March 2005

  
HLB MANN JUDD  
Chartered Accountants

  
WM CLARK  
Partner