

KINGSTREAM STEEL LIMITED

(Subject to Deed of Company Arrangement)

ACN 009 224 800

NOTICE OF MEETING AND EXPLANATORY STATEMENT

IMPORTANT INFORMATION

This is an important document that should be read in its entirety. If you do not understand it, or any part of it, you should consult with your professional advisers without delay.

If you wish to discuss any aspects of this document with the Company please contact in the first instance

Mr Brett Manning of Kingstream Steel Ltd on (+618) 9226 2033 or by email at info@kingstreamsteel.com, or contact

Mr Daniel Bredenkamp of Norgard Clohessy on (+618) 9322 2022 or by email at bredenkampd@norgard.com.au

**NOTICE IS INCLUDED FOR A GENERAL MEETING OF SHAREHOLDERS
TO BE HELD ON 10 APRIL 2003 AT THE PARMELIA ROOM
PARMELIA HILTON HOTEL, MILL STREET, PERTH WA
AT 11.00 AM**

The Deed Administrators recommend that Shareholders approve the proposed transactions by voting in favour of all of the proposed Resolutions. You are encouraged to attend the meeting, but if you cannot, you are requested to complete and return the enclosed Proxy Form to the Company's share registry, Computershare Investor Services Pty Ltd, GPO Box D182, Perth WA 6840, without delay.

Legal Advisers to the Proponent
Bamford Associates Lawyers
Level 11, Kyle House
27-31 Macquarie Place
Sydney NSW 2000

Legal Advisers to the Deed Administrators
Clayton Utz
BankWest Tower
108 St George's Terrace
Perth WA 6000

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LETTER FROM THE DEED ADMINISTRATORS



Norgard Clohessy
CHARTERED ACCOUNTANTS

25 February 2003

Dear Shareholder

**KINGSTREAM STEEL LTD
(SUBJECT TO DEED OF COMPANY ARRANGEMENT)
ACN 009 224 800 (“the Company” or “Kingstream”)**

This booklet contains a proposal for the reconstruction and recapitalisation of Kingstream Steel Limited and associated transactions to secure the quotation of the securities of the Company on the Australian Stock Exchange (“ASX”) from the completion of the proposed reconstruction and recapitalisation of the Company.

Following our appointment as Deed Administrators we have received a number of proposals for the reconstruction and recapitalisation of the Company as anticipated by the terms of the Deed of Company Arrangement entered into on 3 April 2002. A proposal received from Koolanooka Pellets Pty Limited, ACN 099 283 815 (“the Proponent”), has been accepted by us under the Deed of Company Arrangement in our capacity as Deed Administrators (“the Reconstruction Proposal”).

The full terms of the Reconstruction Proposal are set out in a Reconstruction Deed entered into by the Company, the Proponent and us as Deed Administrators on 1 November 2002 after consideration by the Committee of Creditors appointed under the Deed of Company Arrangement (“the Creditors’ Committee”).

As a general overview, the Reconstruction Proposal will facilitate the recapitalisation of the Company, revitalise the Company and restore its credibility in the market place, and, in particular, will fast track it towards cash flow generation based on initial development of a lower capital cost iron ore, pellet or DRI/HBI project, thereby enhancing the Company’s ability to proceed to the full Mid West Iron and Steel (“MWIS”) project as and when conditions allow.

The Reconstruction Proposal contemplates:

- the consolidation of the Company’s share capital;
- a capital raising (being a combination of rights/entitlement issue, placements and general issue);
- payment of cash and the issue of debt capitalisation shares to the Company’s creditors;
- the issue of Kingstream shares to the Proponent or a nominee; and
- the lifting of Kingstream’s ASX trading suspension.

The Reconstruction Proposal is explained in more detail in the accompanying Explanatory Memorandum.

PARTNERS

*Bryan Hughes
Vincent Smith
Chris Manday
Queenie Megson*

CONSULTANTS

*Ross Norgard
Travis Clohessy*

10 Ord Street, West Perth, WA 6005 PO Box 777, West Perth, WA 6872
Telephone: (08) 9322 2022 **Facsimile:** (08) 9322 1262 **E-mail:** nc@norgard.com.au



It is considered by us, as Deed Administrators, and the Creditors' Committee that the Reconstruction Proposal will enable us as Deed Administrators to achieve the objectives set out in Part 5.3A of the *Corporations Act (Commonwealth) 2001* ("the Act") and in particular to maximise the chances of the Company continuing in existence and to provide a better return to the creditors and members of the Company than would result from the immediate winding up of the Company. In addition, it provides scope for existing shareholders to retain up to approximately 70% of the Company should they elect to subscribe for the proposed new shares.

The essential steps required for the recapitalisation of the Company are set out in Section 1.4 of the accompanying Explanatory Memorandum prepared in accordance with the requirements of the Act and the Listing Rules of the ASX.

The necessary General Meeting of shareholders of the Company is to be held at 11:00am on Thursday, 10 April 2003 at the Parmelia Room at the Parmelia Hilton Hotel, Mill Street Perth.

None of the ordinary resolutions required under the Reconstruction Proposal and listed in the accompanying notice of meeting will take effect unless each of the ordinary resolutions are duly passed. If any of those ordinary resolutions are not passed by shareholders the Company will remain subject to the Deed of Company Arrangement, the trading suspension imposed by the ASX will remain in force and the Deed Administrators will need to consider other alternatives, which may include placing the Company into liquidation (in which event no return to shareholders is anticipated).

We urge you to attend the General Meeting of shareholders. If you are unable to attend the meeting personally, your proxy should be forwarded to the Company's share registry so as to be received by no later than 11:00am on Tuesday, 8 April 2003.

We encourage you to consider the attached documentation carefully and to exercise your vote in favour of the resolutions proposed for approval at the forthcoming meeting. It is very important that you participate in the decision which could be crucial for the future of your investment in the Company.

If you have any questions regarding the Explanatory Memorandum or the reconstruction process, I ask that in the first instance you should speak with Mr Brett Manning of Kingstream on +618 9226 2033 or email info@kingstreamsteel.com, or Mr Daniel Bredenkamp of our office on +618 9322 2022 or email bredenkampd@norgard.com.au.

Yours sincerely

BRYAN HUGHES
Joint and Several Deed Administrator

VINCENT SMITH
Joint and Several Deed Administrator

EXPLANATORY STATEMENT TO SHAREHOLDERS

PROPOSAL FOR THE RECAPITALISATION OF KINGSTREAM STEEL LIMITED

(Subject to Deed of Company Arrangement)

ACN 009 224 800

**BY THE ISSUE OF UP TO
50 MILLION ORDINARY SHARES
AND ASSOCIATED TRANSACTIONS**

1. THE RECAPITALISATION PROPOSAL

1.1 Overview

This Statement sets out information about the proposed restructuring and recapitalisation of the Company. Particular sections of the Statement provide specific information relating to particular Resolutions to be considered by the Existing Shareholders at the General Meeting.

You should read the accompanying letter to Shareholders from the Deed Administrators first. A short explanation of each Resolution to be considered at the General Meeting is set out in Section 2.3 of this Statement. Definitions of defined terms used in this Statement are set out in Section 9 of this Statement.

In summary, in general terms, the key intention behind the proposed recapitalisation is to permit the Company to continue to seek to develop value added iron ore based projects in Western Australia, and to do so with Existing Shareholders having the scope to retain up to approximately 70% of the Company (should they elect to fully participate in the capital raising under the Issue) and to adopt and implement a staged development strategy.

1.2 Background

The Company went into voluntary administration on the Administration Date when Messrs Bryan Hughes and Vincent Smith were appointed as the administrators of the Company. Subsequently, on 3 April 2002 the Company and the Deed Administrators entered into the DOCA and the administrators of the Company became the Deed Administrators of the DOCA which was varied on 28 November 2002 under sections 445A and 445F of the Corporations Act.

On 1 November 2002 the Deed Administrators and the Proponent entered into the Reconstruction Deed to record the terms on which the Proponent proposed that the Company be reconstructed and recapitalised to facilitate the achievement by the Deed Administrators of the objectives set out in Part 5.3A of the Corporations Act and in particular to maximise the chances of the Company continuing in existence and to provide a better return to the creditors and members of the Company than would result from the immediate winding up of the Company. Copies of the DOCA and Reconstruction Deed are available for inspection at the offices of the Deed Administrators.

1.3 Name Change and Amendment of Constitution

Upon completion of the Recapitalisation Proposal the Proponent's Directors consider that it would be an opportune time to:

- change the Company's name to Midwest Corporation Limited (see Resolution 6 and Section 2.3.6); and
- adopt a new constitution of the Company, a copy of which will be available for review at the offices of the Deed Administrators before the date of the General Meeting and also at the General Meeting (see Resolution 7 and Section 2.3.7).

1.4 Principal Features of the Recapitalisation Proposal

The principal features of the Recapitalisation Proposal are as follows:

- **Consolidation of Capital:** Consolidation of the Existing Ordinary Shares of the Company on a 1 for 100 basis: (see Resolution 1 and Section 2.3.1).
- **Issue:** The issue of up to approximately 35 million new Ordinary Shares (Issue), with a minimum issue of 15 million and target issue of approximately 30 million new Ordinary Shares, at \$0.20 each, for the purposes of:
 - raising funds to recapitalise the Company;
 - paying at least Creditor Payment No. 1, and possibly Creditor Payment No. 2, to the Trustee for the benefit of Admitted Creditors;

- repaying the Proponent's Loan;
- enabling the Company to satisfy the ASX's requirements for Reinstatement; and
- enabling the Company to commence implementation of a proposed business plan for the Company: see Section 1.14.

It is proposed that the Issue include an offer to Existing Shareholders with a first right to apply for up to approximately 30 million new Ordinary Shares to enable Existing Shareholders to maintain the level of their interest in the Company to that degree: (see Resolution 2 and Section 2.3.2). Discussions with potential underwriters have opened and, in the expectation that not all existing shareholders will wish to subscribe and that those considering doing so may be encouraged by the prior commitment of other parties, discussions have also opened with potential cornerstone investors.

- **Debt Capitalisation:** If the Minimum Subscription is achieved, the issue of 6,002,408 debt capitalisation Ordinary Shares to the Trustee for the benefit of the Admitted Creditors (subject to escrow for 3 months and progressively available over the subsequent 5 months): (see Resolution 3 and Section 2.3.3).
- **Creditor Payment No. 1:** If the Minimum Subscription is achieved the payment of \$1 million, plus the amount of the Administrator's Funding, to the Trustee for the benefit of Admitted Creditors: (see Section 1.8).
- **Creditor Payment No. 2:** The possible payment of up to \$700,000 to the Trustee for the benefit of Admitted Creditors depending on the amount raised under the Issue: (see Section 1.8).
- **Creditor Payment No. 3:** The possible payment of a further amount to the Trustee for the benefit of Admitted Creditors up to a maximum of 100 cents in the dollar of Admitted Claims if the Company raises further capital within 12 months immediately following the Issue: (see Section 1.8).
- **Proponent's Loan:** The repayment by the Company of the Proponent's Loan to the Proponent, which will enable the Proponent to reimburse its Shareholders for the funding of the Proponent through the Proponent's Shareholders Loans.
- **Merger:** Merger of the Company with the Proponent by the exchange of the Proponent's Issued Shares for the issue of the Proponent Shareholders' Shares by the Company. Indicatively this will require the issue of approximately 9 million Ordinary Shares, with the actual number capped at 19.9% of the number of Ordinary Shares post Issue, including the Proponent Shareholders' Shares and the Ordinary Shares issued under Resolution 3. The Proponent Shareholders' Shares will be voluntarily escrowed for 12 months: (see Resolution 4 and Section 2.3.4).
- **Change of Name:** The change of name of the Company: (see Resolution 6 and Section 2.3.6).
- **Board Changes:** The replacement of the existing Board with a new Board comprising the Proponent's Directors: (see Resolutions 8 to 10 and Section 2.3.8).
- **DOCA Termination:** Termination of the DOCA in relation to the Company.

In addition as part of the Recapitalisation Proposal it is proposed that:

- **Adoption of New Constitution:** A new constitution for the Company be adopted to replace the Company's existing Constitution to ensure compliance with the current requirements of the Corporations Act and the Listing Rules given the recent enactment of the Corporations Act and amendments to the Listing Rules after adoption of the existing constitution of the Company (see Resolution 7 and Section 2.3.7).
- **Options Issue:** That number of Options be issued to Norvest Corporate Pty Limited ACN 092 381 283 (Norvest) equivalent to 1% of the Ordinary Shares (calculated post implementation of the Recapitalisation Proposal (see Resolution 5 and Section 2.3.5) in consideration of part-payment of Norvest's fee for the provision of corporate advisory services.

1.5 Summary of Effect of Implementation of the Recapitalisation Proposal

By the implementation of the Recapitalisation Proposal:

- the Share Consolidation will occur;
- ownership of the Trust Assets (in effect, money and rights to money, for the ultimate benefit of Admitted Creditors) will pass to the Trustee (see Section 1.9);
- the DOCA will terminate pursuant to section 445C(c) of the Corporations Act at the Operative Time;
- all Claims against the Company will be released, extinguished and barred (see Section 1.6), with Admitted Creditors claims only able to be met from the Trust Assets;
- the Proponent will become a wholly owned subsidiary of the Company under the Merger Proposal (see Section 1.10);
- the Admitted Creditors' Shares will be issued to the Trustee for the benefit of Admitted Creditors (see Section 1.7);
- the Proponent Shareholders' Shares will be issued to the Proponent Shareholders in exchange for the Proponent's Issued Shares under the Merger Proposal (see Section 1.10);
- up to 550,000 Options will be issued to Norvest (see Section 2.3.5);
- the Board will change to the Proponent's Directors (see Section 2.3.8);
- the Constitution of the Company will be changed (see Section 2.3.7);
- the Company will complete the Issue (see Section 2.3.2);
- the Company will be subject to the obligation to make Creditor Payment No.1 and the contingent obligation to make Creditor Payment No.2 if the Minimum Subscription is exceeded (see Section 1.8);
- the Company will be subject to the obligation to make Creditor Payment No.3 if the Company raises further capital within the 12 months immediately following the Issue (see Section 1.8); and
- the Company will repay the Proponent Loan and the Proponent will repay the Proponent's Shareholders Loans (see Section 1.8).

1.6 Deed of Company Arrangement (DOCA)

Under the DOCA the Deed Administrators were responsible for seeking proposals for the restructuring of the Company (**Proposals**) so that the Company's securities may be re-quoted for trading on the ASX. The Proponent made the Recapitalisation Proposal within the terms of the DOCA which has been accepted by the Deed Administrators after consideration by the Creditors' Committee and, subject to the approval of the Resolutions by the Existing Shareholders under the Reconstruction Deed, is to be implemented under the Reconstruction Deed.

The DOCA binds all persons having a Claim, however, the DOCA does not prevent a Secured Creditor from realising or otherwise dealing with its security (except to the extent that the DOCA so provides in relation to a Secured Creditor who voted in favour of the Creditors' Resolution or the Court orders under subsection 444F(2) of the Corporations Act) or affect a right that an owner or lessor of property has in relation to that property (except so far as the DOCA so provides in relation to an owner or lessor of property who voted in favour of the Creditors' Resolution or the Court orders under subsection 444F(4) of the Corporations Act).

The Claims of the Creditors will be dealt with by the Deed Administrators and the Trustee in accordance with the DOCA, the Trust Deed and the Corporations Act.

Under the Reconstruction Deed the Deed Administrators have agreed with the Company and the Proponent that the Deed Administrators will procure to be delivered to the Company at the Operative Time a duly executed discharge of the Leelock Mortgage and the Tippen Mortgage and any release of any other security over the assets of the Company that may be held by the creditor in respect of the monies secured by the Leelock Mortgage or the Tippen Mortgage (**Securities Discharge**).

In summary, under the DOCA upon the Termination Date:

- **Substitution of Claims:** the Creditors will obtain an entitlement under the arrangement provided for in the Trust Deed in substitution for the Creditors' previous entitlements against the Company and under the DOCA as at the Termination Date (**Admitted Creditors' Entitlements**);
- **Claims Discharge:** all persons having a Claim must accept their entitlements under the Trust Deed in full satisfaction and complete discharge of all Claims which they have or claim to have against the Company as at the Administration Date;
- **Claims Extinguished:** all Claims are extinguished but Admitted Creditors have the right to participate in the Trust Fund in accordance with the terms of the Trust Deed; and
- **Bar:** the Company may plead the DOCA in bar to any action, proceeding or suit brought by a creditor in respect of the creditor's claim, subject to the terms of the DOCA.

A copy of the Trust Deed is available for inspection at the offices of the Deed Administrators and also at the General Meeting.

Subject to the rights of secured creditors and owners and lessors of property noted above, pending the occurrence of the Termination Date (in summary) any person having a Claim, to the extent to which they are bound by the DOCA, must not begin or continue any proceeding (including any winding up of the Company) against the Company, or in relation to any of its property or property used or occupied by, or in the possession of, the Company.

Under the DOCA the Deed Administrators have the power to issue shares in the Company and a Proposal may include a placement of the Company's shares.

Under the Recapitalisation Proposal it is proposed that Ordinary Shares be issued under the Issue (which may include a placement as determined by the Proponent's Directors (**Share Placement**)), the allotment of the Admitted Creditors' Shares and the Proponent Shareholders' Shares.

The Company will cease to be subject to the DOCA immediately after the Termination Date.

1.7 The Reconstruction Deed

The Reconstruction Deed will enable the reconstruction and recapitalisation of the Company and re-quoting of the Company's securities on the ASX by implementation of the Recapitalisation Proposal.

Under the Reconstruction Deed:

- The Proponent has advanced the Proponent Loan which is repayable from the proceeds of the Issue or, if there is no Issue, the Proponent's Loan will remain a debt due by the Company to the Proponent subordinated to the total debt due to the Admitted Creditors so that repayment of the Proponent's Loan is then subject to Admitted Creditors first being paid the Admitted Claims in full.
- The Deed Administrators may provide, on behalf of the Company, the sum of up to \$100,000 towards any costs and expenses of implementing the Recapitalisation Proposal that may arise (**Administrators' Funding**).
- If the Operative Time occurs, the Company must pay up to the sum of \$100,000 from the proceeds of the Issue to the Trustee for the benefit of the Admitted Creditors, or as the Deed Administrators direct, by way of reimbursement of the amount of Administrators' Funding actually provided by the Administrators towards any costs and expenses of implementing the Recapitalisation Proposal.
- Within 7 days of the completion of the Issue the Company must pay to the Deed Administrators, as Trustee, Creditor Payment No.1 and (subject to the amount raised) Creditor Payment No.2.
- If the Company raises further capital within the 12 months immediately following the Issue, the Company must pay Creditor Payment No.3 to the Deed Administrators as Trustee.
- The Company is required to issue to the Proponent Shareholders the Proponent Shareholders' Shares in exchange for the Proponent's Issued Shares (see Section 1.10).
- The Company is required to issue the Admitted Creditors' Shares (which if allotted to the Trustee

EXPLANATORY STATEMENT TO SHAREHOLDERS

will be part of the Trust Assets for distribution to the Admitted Creditors in accordance with the DOCA and the Trust Deed) at a value of 20 cents per Ordinary Share.

- The Admitted Creditors' Shares will be subject to escrow arrangements (**Escrow Provisions**) which provide that neither the Deed Administrators nor the Trustee may, without the written consent of the Proponent:
 - for the period of 3 months following Reinstatement, sell or transfer title to any of the Admitted Creditors' Shares; or
 - during the further period of 5 months commencing on the elapse of that 3 month period, sell or transfer title, in any one month, to more than 20% of the original total number of Admitted Creditors' Shares.
- The Escrow Provisions do not apply:
 - to the establishment of the Trust Fund (see Section 1.9);
 - in the event of an intervening Court order;
 - in the event of a takeover offer or other general offer relating to 50% or more of the Company's shares becoming or being declared unconditional; or
 - pursuant to any compromise or arrangement approved by the Court pursuant to section 411(4) of the Corporations Act.
- If any of the Admitted Creditors' Shares are transferred to any Admitted Creditor, the Deed Administrators or Trustee must obtain as a condition of transfer from that Admitted Creditor for the benefit of the Proponent, a binding undertaking by the Admitted Creditor to observe the Escrow Provisions to the same extent as if the Admitted Creditor were the Deed Administrators or Trustee.
- The Company must allot the Admitted Creditors' Shares and the Proponent Shareholders' Shares at the same time as the completion of the Issue.
- The Deed Administrators must, immediately before the General Meeting, give notice to each Existing Director requesting the Existing Director to resign as a director of the Company with effect from the appointment of the Proponent's Directors.
- If after payment of the amount for which the Deed Administrators are to be indemnified, the Admitted Creditors receive 100 cents in the dollar on their Admitted Claims, the surplus or balance must be paid by the Deed Administrators or the Trustees to the Company.
- The Securities Discharge is to occur (see Section 1.6).

1.8 Creditor Payments

It has been agreed by the Deed Administrators, the Company and the Proponent that as part of the Recapitalisation Proposal the following payments be made to the Trustee for the benefit of Admitted Creditors:

Creditor Payment No.1: within 7 days of the completion of the Issue the Company will pay to the Trustee the sum of \$1 million and also pay the amount of the Administrators' Funding actually provided by the Deed Administrators towards any costs and expenses of implementing the Recapitalisation Proposal;

Creditor Payment No.2: within 7 days of the completion of the Issue the Company will pay to the Trustees an amount equivalent to 10% of the amount by which the gross proceeds of the Issue exceeds \$3 million, to a maximum of \$700,000;

Creditor Payment No.3: if the Company raises further capital within the 12 months immediately following the Issue, the Company must pay to the Trustee an amount equal to 10% of the gross amount of the capital so raised.

The total amount paid to the Trustee under the Creditor Payment No.1 and Creditor Payment No.2 combined will not exceed \$1,800,000.

The amount paid under Creditor Payment No.1 and Creditor Payment No.2, together with the value of the Admitted Creditors' Shares at the date of the Issue (as determined at a value of 20 cents per Ordinary Share), will not exceed the amount required to pay the total amount of Admitted Claims in full.

In addition, the Reconstruction Deed provides that if the Minimum Subscription is achieved, the Company will repay the Proponent's Loan to the Proponent. The Proponent has in turn agreed to repay the Proponent's Shareholders Loans to the Proponent Shareholders.

1.9 Trust Assets Declaration And Retained Assets

Under the terms of the DOCA and the Trust Deed the Deed Administrators, in accepting the Recapitalisation Proposal, were able to agree that certain assets of the Company would, by execution of the Trust Deed, cease to be beneficially owned by the Company and would be made available for the purpose of meeting the Admitted Claims of Admitted Creditors. The Administrators and the Proponent have agreed that the Recapitalisation Proposal will proceed on the basis that before the Termination Date the Trust Deed will be executed so that the beneficial ownership of the Trust Assets will vest in the Trustee for the benefit of the Admitted Creditors for their respective Admitted Creditors' Entitlements: see paragraph 'Substitution of Claims' in Section 1.6.

As the legal ownership of certain Trust Assets may remain with the Company after the Termination Date and liabilities may thereby attach to the Company, the Reconstruction Deed provides that the Trustee must indemnify the Company out of the Trust Assets against all costs, outgoings and other liabilities referable to the Trust Assets that are incurred after the Operative Time (**Indemnified Liabilities**) provided that:

- that indemnity is strictly limited to the Trust Assets; and
- the Company releases the Deed Administrators from all costs, outgoings and other liabilities in excess of that limitation but only if the Deed Administrators do not effect the distribution of any Trust Assets to any Admitted Creditor at any time unless the Deed Administrators are able to duly meet from the remaining Trust Assets all Indemnified Liabilities that have arisen or are reasonably foreseeable.

The Reconstruction Deed also provides that the Deed Administrators or Trustee will pay all costs, outgoings and other liabilities legitimately incurred by, and which have been invoiced to the Company after the Administration Date and up to, the Operative Time.

Following the Termination Date the Company will retain ownership of various tenements and various technical and intellectual property and cash (**Retained Assets**): (see Sections 1.12, 1.13 and the pro forma summary of assets and liabilities in Section 8.8).

1.10 Merger Proposal

The Reconstruction Deed enables the Company to acquire the Proponent's Issued Shares in exchange for the issue of the Proponent Shareholders' Shares under the Merger Proposal. The Proponent's Directors have been involved in the formulation of the Recapitalisation Proposal. It is proposed they will form the Board if the Resolutions are passed: (see Resolutions 8 to 10 and Section 2.3.8).

The Proponent Shareholders includes the Proponent's Directors and others who have funded the Proponent to enable the formulation and execution of the Recapitalisation Proposal including the making of Proponent's Loan: (see Section 1.7)

The Proponent has undertaken no activities other than the promotion of the Recapitalisation Proposal and associated funding of the Proponent for that purpose. At the date of its acquisition by the Company, the Proponent will have liabilities for the Proponent's Shareholders Loans of up to \$280,000 (anticipated to be \$200,000), an exploration licence application bordering Koolanooka tenements (E70/2558), intended to protect the development options regarding Koolanooka, and the Business Plan and various relationships it will bring to the Company's benefit. The Proponent's Shareholders Loans will be repaid from the repayment by the Company of the Proponent's Loan.

EXPLANATORY STATEMENT TO SHAREHOLDERS

Under the Reconstruction Deed the Proponent may request the Company to issue the Proponent Shareholders' Shares to all of the Proponent Shareholders in such number or proportion as the Proponent may direct, in exchange for the Proponent's Issued Shares.

If that occurs:

- the Deed Administrators, the Company, the Proponent, the Proponent's Directors and the Proponent Shareholders must enter into the Merger Documentation;
- the Company must issue the Proponent Shareholders' Shares to Proponent Shareholders in the proportions that the Proponent Shareholders hold their Proponent Issued Shares at the Operative Time; and
- the Proponent must procure that the Proponent Shareholders transfer their Proponent's Issued Shares in exchange for the issue to them of Proponent Shareholders' Shares, so that all of the Proponent's Issued Shares will thereby be transferred to the Company and the Proponent will become a wholly owned subsidiary of the Company.

Under the Reconstruction Deed the consideration for the Proponent's Issued Shares will be the exchange of the Proponent Shareholders' Shares. That will be 9,003,613 Ordinary Shares provided that, if at Reinstatement the 9,003,613 Ordinary Shares would constitute more than 19.9% of the total issued share capital of the Company (taking into account all the New Shares), then the number of Ordinary Shares to be issued as Proponent Shareholders' Shares will be reduced to 19.9% of the total issued shares of the Company (including all the New Shares).

The Proponent's Issued Shares transferred to the Company in exchange for the Proponent Shareholders' Shares do not form part of the Trust Assets.

1.11 Proposed Capital Structure on Completion of the Recapitalisation Proposal

Details of the capital structure before and after the issue and allotment of all the New Shares are set out below.

■ **Share Consolidation**

The existing share capital of the Company is to be consolidated on a one for 100 basis under the Share Consolidation. There are no Options presently granted by the Company. There are no other securities issued by the Company other than fully paid ordinary shares.

Number of Existing Ordinary Shares (on a pre-consolidation basis) on issue before Share Consolidation	500,200,655
Number of Ordinary Shares on issue after the Share Consolidation	no more than 5,002,007

Note: The Share Consolidation does not of itself affect the proportions in which the Existing Shareholders will hold the Ordinary Shares, however, Resolution 2 provides that if an Existing Shareholder holds a number of Existing Ordinary Shares which is not evenly divisible by 100, the number of replacement Ordinary Shares credited to that Existing Shareholder will be rounded down to the nearest whole number.

■ **Ordinary Shares After Share Consolidation and Recapitalisation Proposal**

The number and ownership of Ordinary Shares immediately after the completion of the Share Consolidation and the allotment of all the New Shares (assuming the number of New Shares issued equals the Anticipated Share Issue) is set out below:

Issued Shares After Issue and Share Consolidation	Number of Shares	%
Total number of Ordinary Shares after Share Consolidation and before the Issue: no more than	5,002,007	10%
New Shares to be issued pursuant to the 1 for 1 rights issue	5,002,007	10%
New Shares to be issued pursuant to the general issue**	25,010,035	50%
New Shares to be issued to the Trustee	6,002,408	12%
New Shares to be issued to the Proponent Shareholders**	9,003,613	18%
Total number of Ordinary Shares on issue on completion of the Issue and after Share Consolidation.	50,020,070	100%

** Assuming number of New Shares issued equals the Anticipated Share Issue.

The Anticipated Share Issue excludes the oversubscriptions of 5,002,007 New Shares

As part of the Recapitalisation Proposal the following Ordinary Shares may be issued by the Company:

- New Shares by way of rights and general issues: 30,012,042 Ordinary Shares (with provision to accept a further 5,002,007 Ordinary Shares as oversubscriptions)
- Admitted Creditors' Shares: 6,002,408 Ordinary Shares
- Proponent Shareholders' Shares: 9,003,613 Ordinary Shares.

No Options are to be issued as part of the consideration for the acquisition of the Proponent's Issued Shares.

A total of up to 550,221 Options representing 1% of the issued capital, will be issued to Norvest as part of the consideration for the provision of consulting services regarding the Recapitalisation Proposal. If the New Shares issued equals the Anticipated Share Issue, as shown in the above table, 500,201 Options will be issued to Norvest. See Section 2.3.5 for further details of these Options.

If the Issue is successful and the target issue of 30 million Ordinary Shares is achieved under the Issue the proposed capital structure will see the Company with an issued capital amounting to approximately 50 million Ordinary Shares, in approximately the following proportions:

	Shares (m)	%
Existing Ordinary Shares (post Share Consolidation)	5	10
Admitted Creditor's Shares issued on Debt Capitalisation	6	12
Issue Shares (target)	30	60
Proponent Shareholders' Shares	9	18
Total Shares	50	100

If the Company achieves the Minimum Subscription of \$3 million or achieves the full subscription of the Issue (including over-subscriptions of \$1 million) the approximate proportions would be as follows:

	Minimum subscription		Maximum Subscription	
	Shares (m)	%	Shares (m)	%
Existing Ordinary Shares (post Share Consolidation)	5	15	5	9
Admitted Creditors' Shares issued on Debt Capitalisation	6	18	6	11
Issue Shares	15	47	35	64
Proponent Shareholders' Shares	6.5	20	9	16
Totals	32.5	100	55	100

1.12 Tenements

The sale of Tallering Peak to Mt Gibson Iron Ltd and Mt Gibson Mining Ltd represented a reduction of approximately 12% of the Company's ore reserves and mineral resources. This sale has been reflected in the Company's pro-forma consolidated Balance Sheet, detailed in Section 8.8.

Set out below is a table of the tenements that will remain in the Company upon completion of the Recapitalisation Proposal:

Koolanooka Hills, Western Australia – 100%			Weld Range, Western Australia – 100%		
	Area	Status		Area	Status
ML 70/1012	598Ha	Granted	TR 70/3902	2310Ha	Granted
ML 70/1013	899Ha	Granted	EL 20/176	7 Blocks	Granted
ML 70/1014	899Ha	Granted	ML 20/402	960Ha	Granted
EL 70/2433	33 Blocks	Application	ML 20/403	991Ha	Granted
	12,296Ha		ML 20/419	507Ha	Application
			EL 51/907	33 Blocks	Application
			EL 20/459	2 Blocks	Application
			EL 20/457	7 Blocks	Application
			EL 20/492	8 Blocks	Application
				19,917Ha	
Blue Hill Range, Western Australia – 100%			Robinson Range, Western Australia – 100%		
	Area	Status		Area	Status
EL 59/462	2 Blocks	Granted	EL 52/1552	59 Blocks	Application
EL 59/902	2 Blocks	Granted	EL 52/1553	70 Blocks	Application
EL 59/971	8 Blocks	Application	EL 52/1554	70 Blocks	Application
EL 59/1059	34 Blocks	Application	EL 52/1555	54 Blocks	Application
	13,800Ha		EL 52/1556	44 Blocks	Application
				89,100Ha	
Jack Hills, Western Australia – 100%			Mt Aubrey, Western Australia – 100%		
	Area	Status		Area	Status
EL 20/209	8 Blocks	Granted	EL 09/1004	47 Blocks	Application
EL 20/458	68 Blocks	Application	EL 70/2237	53 Blocks	Application
EL 51/906	40 Blocks	Application		30,000Ha	
	34,800Ha				

ML = Mining Lease

EL = Exploration Lease

TR = Temporary Reserve

1.13 Technical and Intellectual Property

Up to the Administration Date the Company had spent in excess of \$80 million upon various aspects of pursuing the development of the Mid West Iron & Steel Project vision (**MWIS**) through the *Iron and Steel (Mid West) Agreement Act 1997 (WA)* (**Agreement Act**). This expenditure had been booked as a continuing asset of the Company (**MWIS Expenditure**).

The MWIS Expenditure took the form of such things as securing and maintaining tenements, drilling and other geological work, metallurgical studies, project engineering studies of various types, establishing relationships with various suppliers, contractors, consultants and potential off-take parties, (including the relationship with An Feng), market studies, etc.

The agreement made between the Company and the State of Western Australia and ratified by the Agreement Act has been terminated. Talling Peak has now been sold, some of the material is dated and no longer relevant and the proposed Business Plan (see Section 1.14) will necessarily delay the potential realisation of any cash flow from some of the technical work (e.g. relating to steel production). To address this situation, the Balance Sheet value of these assets has been revised downward by the Company as at 31 December 2001. The carrying value of non-current assets, after the sale of Talling Peak, is recorded at approximately \$22.5 million.

This \$22.5 million relates to the \$27 million carrying value in the Company's 2001 Annual Report after deducting the \$4.5 million sale of the Talling Peak tenements by the Administrators. The \$22.5 million carrying value is consistent with the implicit price for contained iron in the tenements as calculated by the Proponent.

1.14 Business Plan

The Company's operations will be based in Perth with minimal head office personnel and a modest operations base.

The Proponent's Directors initial goal is to review the geological, metallurgical and development data contained in over 200 archive boxes obtained as part of the Recapitalisation Proposal. This data includes a range of previously considered options including construction of a pellet plant as a stand alone operation or embedded with aspects of larger projects, such as development of a DRI/HBI project requiring a pellet project to supply the necessary iron unit feedstock.

Iron Ore Pellet project

The Proponent's Directors current preferred option is an Iron Ore Pellet project, focusing on the Asian market and the EAF feedstock market in particular, with the near term target being the preparation of a formal Pre-Feasibility Study based on the Koolanooka tenements.

The Proponent's Directors current intention in relation to the proposed Iron Ore Pellet project may be summarized as follows:

- A world-scale, low cost 4.5 million tonnes per annum operation, producing high grade direct reduction (DR) iron ore pellets.
- The project would be based on the large demonstrated ore reserve of 405 million tonnes at Koolanooka, with additional resources and reserves potential. The reserve has a stripping ratio of 0.8 tonnes of waste per tonne of ore and is sufficient to support a 32 year pellet production operation.
- The ore reserve would be mined as an open pit operation similar to the initial mining of direct shipping Koolanooka iron ore conducted by Western Mining Corporation and Hanna from 1966 to 1972.
- Three sites would be considered for construction of the pellet plant, all within convenient rail distance of the Port of Geraldton. The Port of Geraldton is currently being upgraded to take 55,000 dwt Handymax bulk carriers, suitable for exporting pellets.
- The overall project preliminary capital cost has been estimated at A\$540 million with the project likely to reach full production during 2006.
- Significant early costs, in the order of \$8 million to \$12 million, would need to be incurred for a preliminary and then a definitive/bankable feasibility study and other costs prior to financial closure. The target date for completion of the bankable feasibility study would be mid 2004.
- Based on earlier detailed feasibility study work by Western Mining Corporation the Proponent's Directors understand that improved financial results may be obtained for the Koolanooka pellet plant

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project through the exploitation of ore at the Blue Hills tenements (64 km east of Koolanooka) and use of pipeline transportation of concentrates to the pellet plant site rather than rail.

Benefits of the proposed Iron Ore Pellet project, based on the Koolanooka deposit, are considered to be:

- The Koolanooka primary magnetite ore is hard and requires fine grinding. It is similar in mineralisation style and metallurgical behaviour to the very large Lake Superior iron ore deposits in North America, but higher in grade.
- The Koolanooka magnetite ore has been demonstrated as able to be concentrated to a sufficiently low level of silicon and alumina impurities for production of DR pellets for use in electric arc furnaces, which command a price premium over the lower quality blast furnace pellets, with higher impurity levels.
- There is a large international seaborne trade in pellets, estimated at approximately 90 million tonnes per annum, and market forces favour the entry of a new independent producer, to lessen the concentration and market domination of the three largest suppliers, CVRD, Rio Tinto and LKAB. Target regional markets include East Asia, the Middle East, Malaysia and Indonesia.
- Koolanooka is very well situated in terms of existing road, rail, gas, telecommunications and export port infrastructure, and the project location in the Western Australian wheat belt region causes a significantly lower operating cost structure than in the Pilbara region.
- The provisional estimated FOB costs of less than US\$30 per tonne of pellets is regarded as both competitive and likely to generate reasonable returns.
- The relative proximity to the Asian markets will provide a competitive advantage.
- There are no significant identified project risks that are currently considered likely to impact on the Koolanooka project.

The above intentions and benefits all require further detailed work and analysis before a definitive outlook for the proposed Iron Ore Pellet project can be finalized. This will be achieved, in part, by the review of the geological, metallurgical and development data contained in the archive boxes obtained as part of the Recapitalisation Proposal.

Direct Shipping of Haematite Ore and development of a DRI/HBI project

Parallel with the further investigation of the Iron Ore Pellet project the Company will investigate the scope for modest direct shipping of haematite ore and the opportunity of developing a DRI/HBI project. These investigations would be conducted in conjunction with the Iron Ore Pellet project but would receive less attention.

The direct shipping of ore for the blast furnace market has the potential of providing an early cash flow at a relatively low cost. The potential to identify, mine and export some direct shipping grade iron ore has already been identified. Even the export of quantities as low as 0.5 to 1 million tonnes per annum for three or four years would make a material contribution to pre-development expenses for the Iron Ore Pellet project. Based on a limited review of geological data from the WMC-Hanna days, scope for direct shipping ore from Koolanooka tenements seems limited whereas scope for direct shipping ore from the nearby Blue Hills tenements seems to be greater.

The development of a DRI/HBI project to provide actual feed for EAF steel producers would require a greater capital cost than the Iron Ore Pellet project as, development of the DRI/HBI project would require an Iron Ore Pellet project to supply the necessary iron unit feedstock.

The likely cost and timetable for conducting the necessary work for either the Iron Ore Pellet project and/or these additional options would be dependent on the review of the wealth of relevant data that already exists. The cost and time should be less than might normally be budgeted if the examination of a pellet plant proposal was starting from scratch.

Exploration and Development of other tenements

The Company will also proceed with exploration and related work on the non-Koolanooka tenements. The annual maintenance commitments for these tenements amounts to approximately \$381,000 at 1 February

2003. The objective of this work will be to better identify prospective geological assets and related mineralogical information that will assist with future decisions in relation to these tenements.

The largest tenement package is the Weld Range group of tenements, which is remote from both the coast and existing infrastructure, and hence represents the potentially most complicated development prospect. The Company will most likely look to some form of partnership arrangement for development of the Weld Range assets within the first year or so of the recapitalisation of the Company.

Funding

The capital being raised by the Issue will enable the Proponent's Directors to assess their preferred option against alternative options and to assess the need for future debt and equity requirements. The actual level of future funding required will be dependent on several factors:

- (a) A thorough review of the available data needs to be completed. Once reviewed, the viability of the Proponent's Directors preferred option can be compared with alternative development opportunities. The review will determine which opportunity can be implemented in the most cost effective manner, particularly if there is a relatively full suite of data available for one or various options. The more likely scenario is that a number of alternative options may emerge, each based on less than complete data sets. The implication of the latter will be a requirement for a period of further research and possibly a further, minor capital raising ahead of definition of a preferred major development and the major capital raising associated with that development. The implication of the former will be that the Company should relatively quickly be able to move on to detailed planning for and then implementation of a major development, including the related fund raising.
- (b) The direct shipping of ore for the blast furnace market has the potential of providing an early cash flow at a relatively low cost.
- (c) The prospect of entering into development partnerships with previous and new suppliers and contractors to the Company or joint venture partners in the development of the exploration tenements. These partnership opportunities could have a major bearing on the selection and definition of the preferred project, timing of activities and possible requirements for further capital raisings.
- (d) The level of capital raised through the Issue will determine, in part, the type and timing of the initial investigations and development. The level of capital raised will also impact on the level and timing, if at all, for a second capital raising.
- (e) The results of the initial investigations will assist in determining whether the selected strategy is capable of carrying any level of debt funding.

1.15 Use of Funds

The funds being raised by the Issue, the subject of this General Meeting, will enable the Proponent's Directors to assess their preferred option against alternative options and to assess the need and size of future debt and equity requirements, if any. As stated elsewhere in this document, it is the view of the Deed Administrators' and the Creditors' Committee that the Reconstruction Proposal, including the Issue, provides the maximum chance for the Company to continue and provides a better return to all stakeholders than would result from an immediate winding up of the Company.

Set out below is a summary of the use of the funds being raised based on:

- (a) receiving minimum subscriptions of \$3,000,000;
- (b) receiving the Anticipated Share Issue of \$6,000,000; and
- (c) receiving the Anticipated Share Issue plus the oversubscriptions of \$1,000,000.

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	Minimum Subscript'n \$'000	Anticipated Share Issue \$'000	Over- subscript'ns \$'000
Payment to Admitted Creditors	1,000	1,300	1,400
Repayment of Proponent's Loan	200	200	200
Repayment of Administrator Loan	100	100	100
Expenses of the Issue	270	270	270
Consultants & contractors (i) (ii) (iii)			
– project feasibility	100	930	1200
– tenement exploration	50	625	800
Internal feasibility costs (i) (iii)	400	920	1100
Tenement maintenance (i)	80	170	170
Working Capital (iv)	800	1,485	1,760
Total funds raised	3,000	6,000	7,000

- (i) These costs represent the budgeted costs for the first twenty four months after the Issue.
- (ii) With the minimum capital raising greater focus will be placed on farm-out of tenement interests and partnership arrangements for the pre-development work on the proposed pellet project.
- (iii) The oversubscriptions will accelerate the tenement exploration and pellet plant feasibility.
- (iv) Corporate costs, including all insurances, are estimated at approximately \$500,000 pa.

1.16 The Management Team

Under the Reconstruction Deed the existing Board is to be replaced with a new Board consisting of the Proponent's Directors.

2 GENERAL MEETING

2.1 Action to be Taken by the Shareholders

The Recapitalisation Proposal involves the convening of the General Meeting for the purposes of passing the Resolutions in compliance with the requirements of the Listing Rules and the Corporations Act.

Accompanying this Statement is the Notice of Meeting convening the General Meeting which includes a Proxy Form.

Existing Shareholders are encouraged to attend and vote in favour of each of the Resolutions to be put at the General Meeting.

If an Existing Shareholder is not able to attend and vote at the General Meeting the Existing Shareholder may complete the Proxy Form and return it to the Company's share registry not later than 48 hours before the time specified for the commencement of the General Meeting.

2.2 General Meeting Resolutions

There are 11 Resolutions to be put to the General Meeting.

All resolutions are ordinary resolutions except Resolution 6 (Change of Name) and Resolution 7 (Amendment of Constitution) which are special resolutions.

The passage of each ordinary Resolution is conditional on the passing of each of the other ordinary Resolutions, so that no ordinary Resolution will have effect unless each of the ordinary Resolutions is passed by the requisite majority.

2.2.1 Listing Rule 7.1

Under Chapter 7 of the Listing Rules there are limitations on the capacity of a company to enlarge its capital by the issue of equity securities, without shareholder approval. The limitation is to 15% of a company's capital in any 12 month period.

Listing Rule 7.1 provides that a Company must not without shareholder approval, subject to certain exceptions, issue during any 12 month period any equity securities, or other securities with rights of conversion to equity (such as an Option), if the number of those securities exceeds 15% of the number of securities in the same class on issue at the commencement of that 12 month period.

The total number of Ordinary Shares that may be issued under Resolutions 2, 3 and 4 is 50,020,070 Ordinary Shares.

If all of the Options to be granted under Resolution 5 were to be exercised and the maximum number of New Shares had been issued, this would result in the issue of a further 550,221 Ordinary Shares.

As the proposed issue of Ordinary Shares and grant of Options will result in an issue of more than 15% of the Company's capital in a 12 month period, Shareholder Approval is required under Listing Rule 7.1 for the issue of the Ordinary Shares under Resolutions 2, 3 and 4 and the grant of the Options under Resolution 5.

Following the issue of all the New Shares and the grant of the Options referred to above, the Company will still have the capacity to issue 15% of its expanded share capital over the next 12 months as those New Shares and Options once issued will be excluded from the calculation under Listing Rule 7.1 if those Resolutions are passed at the General Meeting.

All of the Ordinary Shares referred to in the Resolutions (including any additional Ordinary Shares issued on the exercise of the Options referred to in Resolution 5) will, on issue, rank equally in all respects with the Existing Ordinary Shares.

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Those Ordinary Shares referred to in the Resolutions (excluding any additional Ordinary Shares issued on the exercise of the Options referred to in Resolution 5) will all be issued at the same time following the achievement of Minimum Subscription under the Prospectus.

2.3 Explanation of Resolutions

2.3.1 Resolution 1 – Consolidation of Capital - provides for the approval of the proposed consolidation of the capital of the Company as required by Section 254H of the Corporations Act. Resolution 1 is an ordinary resolution.

Section 254H of the Corporations Act enables a company to convert all or any of its shares into a smaller number of shares by a resolution passed at a general meeting.

To facilitate the business development of the Company an equity raising will be undertaken in mid 2003, subject to the passing of Resolution 2. ASX requires that the issue price of new shares for which the Company seeks Quotation must be at least 20 cents per share.

To enable the Company to issue shares at a price of 20 cents each it is proposed that the issued capital of the Company be consolidated on a 1 for 100 basis by undertaking the Share Consolidation.

If, on the date of the General Meeting, an Existing Shareholder holds a number of Existing Ordinary Shares which is not evenly divisible by 100, the number of replacement Ordinary Shares credited to that Existing Shareholder will be rounded down to the nearest whole number.

The passing of Resolution 1 will result in the Company having share capital of approximately 5 million Ordinary Shares immediately after the Share Consolidation.

Whilst it is not considered that there are any taxation consequences for Existing Shareholders arising from the Share Consolidation, Existing Shareholders are advised to seek their own tax advice on the effect of the Share Consolidation and neither the Company, the Directors, the Proponent or the Proponent's Directors nor the Deed Administrators nor any adviser to the Company accepts any responsibility for any individual Existing Shareholder's taxation consequences of the Share Consolidation.

The Proponent's Directors consider the Share Consolidation will create a more manageable number of issued Ordinary Shares, particularly having regard to the need to issue a significant number of new Ordinary Shares under the Issue (see Resolution 2), by way of debt capitalisation (see Resolution 3) and the issue of the Proponent Shareholders' Shares (see Resolution 4).

The Share Consolidation itself has no impact on the total net value of a shareholding or on the value of the assets to which those Existing Ordinary Shares relate. The information required under Listing Rule 7.20 in relation to the Share Consolidation is set out in Section 4.2.

2.3.2 Resolution 2 – Issue - provides for the approval required under Listing Rule 7.1 for the Issue (refer section 2.2.1 above). Resolution 2 is an ordinary resolution.

The proposed issue of up to approximately 35 million Ordinary Shares is placed before Existing Shareholders for approval as required by Listing Rule 7.1.

As part of the Proposed Recapitalisation, the Proponent seeks to procure completion of a capital raising by the Company of up to approximately \$6 million by the issue of up to 30,012,042 Ordinary Shares, with the option to raise up to a further \$1,000,401 by accepting oversubscriptions to a further 5,002,007 Ordinary Shares, at the issue price of 20 cents per share. The proposed recapitalisation under Resolution 2 provides for a minimum capital raising of \$3 million by the issue of 15 million Ordinary Shares and a maximum capital raising of \$7,002,809.80 by the issue of 35,014,049 Ordinary Shares. These Ordinary Shares will be issued within 3 months of the General Meeting.

The Ordinary Shares to be issued under Resolution 2 and 3 will be issued pursuant to a public prospectus covering the rights issue and the general issue (with priority application entitlement for Existing Shareholders). Existing Shareholders will receive a non-renounceable right on a 1 for 1 basis for their post

consolidated 5,002,007 Ordinary Shares to raise \$1,000,401. The Company will make a further general issue of any shortfall in acceptances of the rights issue and a further 25,010,035 Ordinary Shares with an ability to accept oversubscriptions for 5,002,007 Ordinary Shares. The general issue will raise up to a further \$5,002,007 and the oversubscriptions will raise up to a further \$1,000,401. A possible total capital raising of \$7,002,809. The rights issue and general issue will be the subject of a single prospectus, with existing shareholders receiving a non-renounceable right on a 1 for 1 basis plus a priority right to subscribe for the additional general issue shares. The Directors will exercise their discretion regarding acceptance of general issue subscription applications and regarding any oversubscription, having regard to the desirability of achieving the target raising as well as the desirability of attracting cornerstone investors and underwriting requirements.

The funds raised under the Issue are to be used in part to pay Creditor Payment No. 1. If the funds raised through the Issue are greater than \$3 million the Company will pay Creditor Payment No. 2 to the Deed Administrators, as Trustee of the Trust Fund. The balance of the funds raised under the Issue will be used to repay the Proponent's Loan and for the costs of the Issue, re-listing of the Company on the ASX and to commence implementation of the proposed Business Plan: see Section 1.14.

2.3.3 Resolution 3 – Debt Capitalisation - provides for the issue of the Admitted Creditors' Shares to the Trustee for the benefit of the Admitted Creditors in partial capitalisation of the Admitted Creditors' claims pursuant to the DOCA, by the way of issue of 6,002,408 Ordinary Shares to the Deed Administrators as Trustee. For the purpose of determining their value in the hands of the Trustee or the Admitted Creditors, the Admitted Creditors' Shares are deemed to have a value of 20 cents each. Resolution 3 is an ordinary resolution.

The issue of Ordinary Shares under Resolution 3 is also to be approved by Existing Shareholders under the requirements of Listing Rule 7.1 for reasons set out in Section 2.2.1.

2.3.4 Resolution 4 – Merger - provides for the approval of the acquisition of the Proponent by the Company in exchange for the issue of the Proponent Shareholders' Shares required under Listing Rules 7.1 and section 208 of the Corporations Act.

Refer to section 2.2.1 for further commentary on Listing Rule 7.1.

The Proponent Shareholders' Shares will be placed in escrow for the Escrow Period so as to prevent the transfer of effective ownership or control of the Proponent Shareholders' Shares during the Voluntary Escrow Period.

2.3.5 Resolution 5 – Issue of Options - provides for the approval of the issue of Options to Norvest. Resolution 5 is an ordinary resolution.

The Proponent, in the investigation and development of the Recapitalisation Proposal engaged Norvest to provide corporate assistance and advice for the benefit of the Company. In part payment of the fee to which Norvest is entitled, subject to the re-capitalisation of the Company and the Company's shares being re-quoted on the ASX, it is proposed that Norvest receive Options to acquire Ordinary Shares in the Company, equivalent to 1.0% of the total issued shares in the Company (after the issue of the New Shares), at an exercise price of 20 cents per share, exercisable on or before four years from the date of issue of the Options. Norvest is 70% owned by Norgard Clohessy Pty Limited of which the Deed Administrators are directors and majority shareholders. The issue of the Options is considered to be reasonable in the circumstances of the Company and Norvest dealing at arm's length with the Proponent in regard to the terms of their appointment.

The full terms and conditions of the Options are set out in Annexure 1.

The issue of the Options will take place no later than 3 months after the date of the General Meeting, with the key terms being an exercise price of \$0.20 per share and a tenure of 4 years.

The issue of Options pursuant to Resolution 6 is also to be approved by Existing Shareholders under the requirements of Listing Rule 7.1 for the reasons set out in Section 2.2.1.

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The quantum of benefit to be received by Norvest will depend in part on the price at which the Ordinary Shares trade on the ASX. However, based on the 20 cent issue price pursuant to the proposed Prospectus the value of the Options, based on their intrinsic value at the date of the General Meeting, has been assessed at nil. More detailed commentary on the value of the Options is set out below.

Share price and value of the Options

Share price

The Company's shares were last traded on the ASX on 27 November 2001, being the date on which the Administrators' were appointed to the Company. Given the length of time since the Company last traded on the ASX and that all prior trading was before the appointment of the Administrators' and before any announcement of the Recapitalisation Proposal, prior ASX share trading prices for the Company are not considered appropriate for a valuation of the Options. A more appropriate value for the Ordinary Shares, for the purposes of valuing the Options, is considered to be the 20 cent issue price of the Issue.

Value of options

As it is a condition of the proposed reconstruction and recapitalisation that Ordinary Shares be offered by public Prospectus at an issue price of 20 cents and the exercise price of the Options is 20 cents, the Options have an intrinsic value of nil.

However, it can be argued that an option value can be assessed using various theoretical valuation methodologies. These theoretical models are designed to allow for the intrinsic value, the time value of money and the volatility of the share price movement. The most common valuation method is the Black & Scholes valuation model.

The Black & Scholes method:

Using a market volatility (based on an average implied volatility of similar sector companies with exchange traded options) of 33%, an exercise price of 20 cents, a share value of 20 cents per Ordinary Share and an expiry date of 31 March 2007, the Black & Scholes method results in a value of 6.8 cents per Option.

It should be noted that the Black & Scholes method is most accurate for pricing exchange traded options which have a relatively short time to expiry, relatively low volatilities and which have significantly large volumes traded in the company's underlying shares.

The Black & Scholes method, due to the volatility in the market for the Company's shares, the unknown volume of trading in the Company's shares, the period to expiry and the option holders ability to exercise at any time, the likelihood that asset returns for the Company will not be normally distributed and other key theoretical assumptions of the Black & Scholes method, may result in a potentially misleading valuation of the Options.

Dilution effect

The issue of Options to Norvest will have a diluting effect on the value of existing shareholders holdings if the Options are exercised. The dilution effect if all the Options issued to Norvest are exercised would amount to approximately 1% of the Ordinary Shares on issue.

2.3.6 Resolution 6 – Change of Name - provides for the approval of the change of name of the Company. Resolution 6 is a special resolution, pursuant to section 157 of the Corporations Act.

As a new image for the Company is considered desirable, it is considered that the proposed new name suitably identifies the Company.

2.3.7 Resolution 7 – Adoption of Constitution - provides for the adoption of a new Constitution for the Company that is in terms acceptable to ASX. Resolution 7 is a special resolution pursuant to section 136 of the Corporations Act. The Corporations Act has been enacted and the Listing Rules amended since the adoption by the Company of its existing constitution. The passage of Resolution 7 will modernise the constitution of the Company by reference to the terms of the Corporations Act and meet current requirements of ASX. The terms of the proposed new constitution have been approved by the ASX.

2.3.8 Resolutions 8 to 10: Board Changes

Resolution 8 to 10: Appointment of Proponent's Directors - provides for the approval of the appointment of the Proponent's Directors to the Board (namely Stephen Ross de Belle, Robert Harry Duffin and Jesse Kavanaugh Taylor) under separate Resolutions. Resolutions 8 to 10 are all ordinary resolutions.

Brief CV's for the proposed directors are as follows:

Jesse K Taylor

Jesse Taylor has a BA in economics and an LLB in law from the University of Texas, and an LL.M in international law from George Washington University Law School. He was a JSD(c) in international and comparative law from Yale Law School, and was a Sterling Fellow in corporate management and finance at Yale Law School.

Jesse is a director of Mincom Limited and Moneo Metals Limited.

Jesse's former executive positions include executive chairman of Kaiser Engineers International, executive director of Elders Resources Limited, President of GFTA, a financial services joint venture between the German group Gesellschaft für Trendanalysen and Morgan Stanley, and president of Phibro Development and Management Corporation. He held various positions over a 15 year period with Kaiser Engineers Inc and the US Atomic Energy Commission.

In addition to his executive roles, Jesse has served as a non executive director on the boards of several companies, including CIF Limited (Chairman), Diversified Mineral Resources NL, China Cement Corporation, Minproc Engineers Ltd (Chairman), Balderstone Hornibrook Ltd, Kidston Gold Mines Ltd, Hebden Mining Company Ltd (Chairman), Robe River Ltd, Australmin Ltd, and Mysore Cement Ltd.

Jesse has very wide international business experience, largely in the resources, resources engineering and finance sectors. He has been a member of over 20 professional or learned societies since 1960.

Jesse was appointed a non-executive director of Kingstream in March 2001. He resigned as a director in September 2001.

Jesse Taylor is aged 71 years.

Stephen R de Belle

Stephen has a BA in economics from Macquarie University, an MSc in economics from the London School of Economics, and a Masters Degree in Town and Country Planning from Sydney University. He is a Member of the Australian Institute of Company Directors.

He is a non-executive director of Australian Superannuation Nominees Limited.

Stephen's background is in strategic marketing, finance and business development analysis for projects, businesses, companies and markets, especially in the minerals and energy, IT&T and infrastructure sectors. His financial experience includes trading bank and bond debt, private, listed and joint venture equity and risk management products. His employment record includes consulting firms, merchant, investment and trading banks, small and large corporates and the public sector.

Stephen has had wide exposure to the iron ore and steel industries and associated infrastructure, including a study of development options for the Yandi iron ore deposit (then owned by CSR Minerals), development of a proposal for the debt and equity funding of a major HBI project in the Pilbara, a study of a proposal for the development of a major steel project for the Government of Victoria, provision of a review and advice to ABB regarding a major steel project, valuation work for Robe River regarding that iron ore project, various work in relation to the Mt Newman iron ore project, various work for the sponsor of a major EAF steel project proposed for Australia, adviser and arranger for Energy Equity Ltd regarding the Blackall power station and Gilmore gas field and pipeline projects and the Sengkang power station, and ABB's proposed Collie Power Project and for Mission Energy's Kwinana financing, and advisor to Samsung and Clutha regarding the Springvale coal joint venture and arranger of project finance for that development.

Stephen's previous roles and employers include head of resources finance, ABN AMRO Australia, director, structured finance, Barclays Bank (then BZW Australia), senior manager, corporate finance, ANZ Capital Markets/McCaughan, senior manager, corporate finance, Capel Court, senior marketing manager, oil and gas

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division, CSR Ltd, senior financial analyst, minerals division, CSR Ltd, consultant, IMG Consultants, and director, regional planning, Northern Metropolitan Region, NSW Department of Health.

Stephen de Belle is aged 51 years.

Robert H Duffin

Bob Duffin has a BSc(Hons) degree from the University of New England, an MSc(Hons) from Macquarie University, and a Graduate Diploma in Management from the University of Central Queensland (then known as the Capricornia Institute of Advanced Education). He is a Fellow and Chartered Professional in Management of the Australasian Institute of Mining and Metallurgy, and holds Australian Financial Services Licence 223675 issued by ASIC. He is Managing Director of Resource Equity Consultants Pty Ltd, a firm which provides investment advisory services in the minerals sector to a wide range of clients. He has over 30 years experience in resource exploration and project assessment, including over 15 years experience in mining investment analysis, project valuations and assessments of fair value of securities.

Bob has held senior positions with Peko-Wallsend Ltd and MIM Holdings Ltd, then two of Australia's largest mining companies, and is a former managing director of Austirex International Ltd, an international resource exploration consulting and contracting firm. He has lived and worked in remote mining communities, including Kalgoorlie in Western Australia, where he resided for four years in the 1970s. He has worked with three stockbroking firms, and was head of research at one of them in the 1980s.

Bob is a non-executive director of Centennial Coal Company Limited and is a director of BMA Gold Limited, an unlisted gold mining company with assets in Queensland. He has served on the boards of listed companies since 1986.

Bob Duffin is aged 55 years.

2.3.9 Resolution 11 – Posting on the Web - provides for the approval of the posting of material on the Web so that that information can be efficiently and economically made available to a large and dispersed audience. It also saves resources. Access to the Web is increasingly pervasive. Using the Web for posting the proposed prospectus regarding the Issue and the Company accounts will enable significant savings regarding printing and postage. Resolution 11 is an ordinary resolution.

2.3.10 Resolution 12 - Number of Directors - provides for the approval of the number of directors being reduced from the minimum of five (5) provided under the current Constitution (in respect of which the Company is not currently in compliance) to a minimum of three (3). This will enable the company to then comply with its current Constitution and hence with the ASX listing requirements.

The replacement constitution proposed in Resolution 7 contains a provision for a minimum of three (3) directors and this Resolution 12 will not be put to the meeting if Resolution 7 is approved. Resolution 12 is a special resolution.

3 REGULATORY REQUIREMENTS

As the Company is listed on the ASX, although trading in the Company's securities is presently suspended, compliance with relevant Listing Rules is required in the implementation of the Recapitalisation Proposal. Additionally, compliance with the 'related party' provisions in the Corporations Act is required: (See Section 4). These requirements are explained more fully below.

The requirements of the Listing Rules applicable to the proposed Resolutions are set out in Section 2. Additionally, Listing Rule 7.20 requires that Existing Shareholders be notified that on the Share Consolidation becoming effective:

- the number of Ordinary Shares issued by the Company will be reduced from approximately 500 million Existing Ordinary Shares to approximately 5 million fully paid Ordinary Shares;
- there is no amount unpaid on the issued securities of the Company; and
- if an Existing Shareholder holds a number of Existing Ordinary Shares which is not evenly divisible by 100, the number of replacement Ordinary Shares credited to the Shareholder will be rounded down to the nearest whole number.

The Company does not have on issue any convertible securities including Options.

4 RELATED PARTY TRANSACTIONS

4.1 Overview

The Corporations Act contains provisions (**Related Party Provisions**) which restrict transactions undertaken by a public company and 'entities' that a public company controls (**Regulated Entity**) with 'related parties' which are designed to protect the interests of a public company's members as a whole, by requiring Shareholder Approval for giving certain 'financial benefits' to the 'related parties'.

The Related Party Provisions apply to Resolutions 4 and 5 (**Related Party Resolutions**)

- the Merger Proposal by virtue of the issue of the Proponent Shareholders' Shares in exchange for the Proponent's Issued Shares and the associated proposed changes to the Board: see Resolutions 4 and 8 to 10; and
- the grant of the Options: see Resolution 5.

Despite anything else in the Corporations Act or in any other law of this jurisdiction (including the general law) or anything in the Company's constitution Resolution 4 must be the same as the proposed resolution lodged with ASIC.

Accordingly Resolution 4 must be passed in the terms notified in the Notice of Meeting and cannot be amended at the General Meeting (if that was otherwise permissible).

Whilst two of the Existing Directors (Messrs Court and Zuks on an Associate inclusive basis: see Section 4.4) hold Existing Ordinary Shares and have lodged Claims against the Company (which have not been accepted by the Deed Administrators as Admitted Claims and are subject to adjudication) and are 'related parties' for the purposes of the Related Party Provisions, Shareholder Approval is not required to Resolutions 2 and 3 under the Related Party Provisions in relation to those Existing Directors as they will confer a financial benefit on those Existing Directors on terms that are considered reasonable in the circumstances if the Company and those Existing Directors were dealing with each other at arm's length.

Whilst Rudolph Dennis Sirr, an Existing Director, does not hold any Existing Ordinary Shares, he has lodged a Claim against the Company (which has not been accepted by the Deed Administrators as an Admitted Claim and is subject to adjudication) and is a 'related party' for the purposes of the Related Party Provisions. Shareholder Approval is not required to Resolution 3 under the Related Party Provisions in relation to Mr Sirr

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as resolution 3 will confer a financial benefit on Mr Sirr on terms that are considered reasonable in the circumstances if the Company and Mr Sirr were dealing with each other at arm's length.

4.2 Identification Of Related Party and Financial Benefits

The following table sets out 'related parties' to whom the Related Party Resolutions will permit financial benefits to be given (**Related Parties**) and the financial benefits to be provided to each Related Party.

Related Party	Financial Benefit	Related Party Resolution
Each Proponent Shareholder	Issue of Proponent Shareholders' Shares and repayment of the Proponent Shareholders' Loan ***	Resolution 2 and 4
Norvest	The grant of the Options	Resolution 5

*** The issue of Proponent Shareholders' Shares to the Related Parties in exchange for the Proponent's Issued Shares under the Merger Proposal. The Proponent's Directors at the date of this Statement hold approximately 84% of the Proponent's Issued Shares. Proponent Shareholders' Shares will be issued to shareholders of the Proponent, including the Proponent's Directors, in proportion to their holdings of Proponent's Issued Shares, but the actual number of the Proponent Shareholders' Shares to be issued to each Proponent's Director is not known at this time as the continued funding requirements of the Proponent will likely result in a reduction of the percentage of the Proponent's Issued Shares that the Proponent's Directors may hold at the Termination Date. The maximum number of Proponent Shareholders' Shares is capped as set out in Section 1.10.

The maximum amount of the Proponent Shareholders' Loans is capped in aggregate at \$280,000 or such other amount as may be notified to Existing Shareholders before the passage of Resolution 1 at the General Meeting. At the date of the Statement it is anticipated that the aggregate amount of the Proponent Shareholders' Loans will be \$200,000.

4.3 Recommendation

The Related Party Provisions require, in relation to each of the Directors that the Statement set out:

- in relation to each Director:
 - any recommendation to Existing Shareholders about the Related Party Resolution that a Director wants to make and the Director's reasons for it; or
 - if a Director does not want to make any recommendation to Shareholders about the Related Party Resolutions, why not; or
 - if a Director is not available to consider any of the Related Party Resolution, why not;
- in relation to each Director whether the Director has an interest in the outcome of the Related Party Resolution and if so - what it was.

Section 437C of the Corporations Act provides that when a company is in administration under Part 5.3A of the Corporations Act a person (other than the administrator) cannot perform or exercise, and must not purport to perform or exercise, a function or power as an officer of the company, except with the administrator's written approval, although the officers are not removed from their office.

Section 444G provides that a deed of company arrangement also binds the officers of the company, and by clause 5.1 of the DOCA the Deed Administrators (in their capacity as deed administrators) continue to maintain control of the Company. That situation applies at the date of this Statement.

Following appointment, the Deed Administrators (who were then administrators of the Company) sought and received a number of Proposals. The Recapitalisation Proposal, the full terms of which are set out in the Reconstruction Deed, has been accepted by the Administrators in their capacity as deed administrators of the DOCA following consideration of all the Proposals received by the Deed Administrators and also by the Creditors' Committee.

The Deed Administrators and the Creditors' Committee consider that the Recapitalisation Proposal will enable the Deed Administrators to achieve the objectives set out in Part 5.3A of the Corporations Act and in particular to maximise the chances of the Company continuing in existence and to provide a better return to the Creditors and Existing Shareholders than would result from the immediate winding up of the Company or from any of the alternative Proposals which have been tabled in response to the Administrators' request for Proposals.

The Deed Administrators recommend to Existing Shareholders that they vote in favour of each of the Resolutions. The Recapitalisation Proposal is considered to be the most favourable Proposal received by the Deed Administrators for the purpose of the revival of the Company by the further development of the Retained Assets and the achievement of Quotation.

The Existing Directors of the Company do not make any recommendation to Existing Shareholders as they have not been involved in the review and consideration of any of the Proposals or the Recapitalisation Proposal.

The Deed Administrators disclose that Norvest is owned 70% by Norgard Clohessy Pty Limited, of which the Deed Administrators are directors and majority shareholders.

4.4 Director's Interest in Outcome of Related Party Resolution

No Director or any Associate (as defined in the Corporations Act) of a Director has any interest in the outcome of the Resolutions except as explained below.

Kenneth Walter Court, an Existing Director, has a beneficial interest in 1,200,714 Existing Ordinary Shares and has lodged a Claim with the Administrators in his own name for \$9,733.78 and through a company related to Mr Court, Turoc Nominees Pty Ltd, in the amount of \$138,065.08. These Claims have not been accepted by the Administrators as Admitted Claims and are currently the subject of adjudication.

Nikolais Zuks, an Existing Director, has a beneficial interest in 4,341,931 Existing Ordinary Shares and has lodged a Claim for \$436,475.94 with the Administrators. This Claim has not been accepted by the Administrators as an Admitted Claim and is currently the subject of adjudication.

Pavilly Pty Limited ACN 009 447 956 (In Liquidation) an Associate of Nikolais Zuks holds 11,654,253 Existing Ordinary Shares in the Company. As that company is in liquidation the Existing Ordinary Shares are now under the control of the liquidator of that company.

Rudolph Dennis Sirr, an Existing Director, does not hold any Existing Ordinary Shares but has lodged a Claim through a company related to Mr Sirr, Equilibrium Risk Advisory Services Pty Ltd, for \$427,423.91 with the Administrators. This Claim has not been accepted by the Administrators as an Admitted Claim and is currently the subject of adjudication.

In relation to each Existing Director the Claim will be dealt with as explained under Section 1.6 and the Existing Ordinary Shares held by each Existing Director will be subject to the Share Consolidation and will have the same rights to participate in the Issue as all other holders of Existing Ordinary Shares

4.5 ASIC's Role

The fact that the accompanying Notice of Meeting, this Statement and other relevant documentation has been received by ASIC under the Related Party Provisions is not to be taken as an indication of the merits of the Recapitalisation Proposal. ASIC and its officers take no responsibility for any decision an Existing Shareholder may make in reliance on any of that documentation.

5 VOTING RESTRICTIONS APPLICABLE AT GENERAL MEETING

Certain voting restrictions are imposed on some Existing Shareholders in relation to some of the Resolutions. Those restrictions are detailed in the accompanying Notice of Meeting under the heading 'Voting Exclusion Statement'.

6 QUOTATION ON ASX

Application for Quotation will be made to the ASX not later than 7 days after the date of the Issue.

The Proponent's Directors do not intend to allot any New Shares unless and until the ASX confirms that it will permit Quotation on terms and conditions acceptable to the Proponent's Directors. If the ASX does not confirm that it will permit Quotation on terms acceptable to the Directors before the end of 3 months after the date of a Prospectus all application money received pursuant to the Prospectus will be repayable in full without interest and none of the New Shares will be issued.

The fact that the ASX may admit, or may already have admitted, the Company to its Official List is not to be taken as an indication of the merits of the Company or of the Ordinary Shares. Official Quotation, if granted, will commence as soon as practicable after holding statements are dispatched. The ASX and its officers will take no responsibility as to the contents of the Prospectus.

7 CONDITIONS

Each ordinary Resolution is conditional upon all the ordinary Resolutions being passed at the General Meeting.

In addition the continued operation of the Reconstruction Deed is subject to and conditional upon the satisfaction of the Recapitalisation Proposal Conditions.

If they are not satisfied or waived by the Deed Administrators within 27 weeks from the date of the Reconstruction Deed, or such further period as agreed in writing by the parties to the Reconstruction Deed, the Reconstruction Deed will have no further force or effect, except that:

- the Proponent's Loan will remain a debt due by the Company to the Proponent subordinated to the total debt due to the Admitted Creditors so that its repayment is subject to Admitted Creditors first being paid the Admitted Claims in full; and
- the Deed Administrators are to provide the Administrators' Funding.

8 OTHER INFORMATION POTENTIALLY MATERIAL TO SHAREHOLDER'S DECISION

8.1 Scope of Disclosure

The Related Party Provisions require that this Statement set out all other information that is reasonably required by Existing Shareholders in order to decide whether or not it is in the Company's interests to pass the Related Party Resolutions which is known to the Company or to any of its Directors (**Relevant Information**).

The Company is not, within the knowledge of the Deed Administrators after due inquiry of the Existing Directors, aware of any Relevant Information that is material to the decision on how to vote on the Resolutions other than as is disclosed in this Statement or previously disclosed to Existing Shareholders by the Deed Administrators or by the Company by notification to the ASX.

8.2 Voting Intentions of Directors

The voting intentions of the Directors (on an Associate inclusive basis) is not known (see Sections 4.2 and 4.3).

8.3 Intentions Regarding the Company

If the Recapitalisation Proposal is approved at the General Meeting the Proponent's Directors have the following intentions:

- **Change of Business:** The Proponent's Directors do not intend to change the Company's activities. In the short to medium term the Proponent's Directors will seek to further develop the Retained Assets in accordance with the Business Plan.
- **Further Capital:** To raise additional capital to finance the post acquisition operations of the Company.
- **Company Employees:** The only existing employee of the Company is Brett Manning, who has been asked to continue with the Company on substantially identical terms as currently apply.
- **Other Dealings with the Proponent Shareholders:** Except for the purchase of the Proponent under the Merger Proposal and as otherwise set out in this Statement it is not proposed that any other property will be transferred between the Company or any Associate of any Proponent Shareholder.
- **Redeployment of Fixed Assets of the Company:** No redeployment of fixed assets of the Company is currently proposed.

8.4 Other Agreements or Arrangements

There are no agreements or arrangements between any Director and the Company to confer any benefit on a Director other than as referred to in this Statement.

8.5 Continuation of Present Business

It is intended, as summarised in the Business Plan noted above, that the Company will continue to be involved in the preparation for, and development of, value added iron ore based projects in Western Australia. No change of business is proposed.

8.6 No Alternative Offers or Proposals

At the date of this Statement the Deed Administrators are not aware of a takeover bid or any proposal alternative to the Recapitalisation Proposal which is more favourable to the Company.

8.7 Taxation

The Recapitalisation Proposal may have taxation consequences for the Company. However until the occasion arises where the question of utilisation of current tax losses emerges and the particular circumstances of the relevant situation(s) can be examined and expert advice obtained, it is inappropriate to attempt to identify those possible consequences. Any attempt to clarify the matters now would have been expensive and could only have resulted in an expert opinion that was heavily qualified due to the inherent uncertainty. Furthermore, the timeframe within which the question of potential utilisation of tax losses might arise is also unclear.

Existing Shareholders are advised to seek their own tax advice on the effect of the Recapitalisation Proposal and neither the Company, nor the Directors, Proponent, Proponent's Directors, Trustee or the Deed Administrators or any adviser to the Company accepts any responsibility for any individual Existing Shareholder's taxation consequences of any aspect of the Recapitalisation Proposal.

8.8 Summary of Pro-forma Consolidated Assets and Liabilities

Set out below is a summary of the Company's pro forma consolidated unaudited balance sheet upon completion of the Recapitalisation Proposal assuming the target to raise \$6 million is achieved.

	Audited Accounts	Adjustments on	Notes	Pro forma post
	31 December 2001	Recapitalisation		Restucture
	\$'000	\$'000		\$'000
Current assets				
Cash	43	4,087	(a)(b)(c)	4,130
Inventories and Other	68	(68)	(a)	-
	111			4,130
Non current assets				
Property, plant and equipment	604	(604)	(a)	-
Tenements	27,000	(4,500)	(c)	22,500
Goodwill		1,800	(d)	1,800
	27,604			24,300
Total Assets	27,715			28,430
Current liabilities				
Accounts payable	7,716	(7,716)	(e)	-
Total liabilities	7,716			-
Net Assets	19,999			28,430
Equity				
Contributed equity	759,233	8,730	(f)	767,963
Reserves	33,811			33,811
Accumulated losses	(773,045)	(300)	(g)	(773,344)
Total equity	19,999			28,430

Notes:

- (a) Pursuant to the Reconstruction Deed all Trust Assets are transferred to the Trustee for Admitted Creditors.
 (b) The net cash proceeds received by the Company as follows:

	\$
Cash from Issue	6,000,000
Payment to Trustee for Admitted Creditors	(1,300,000)
Repayment of Proponent's Loan	(200,000)
Repayment of Administrators' Funding	(100,000)
Expenses of the Issue	(270,000)
Net cash movement	4,130,000

- (c) The Tallering Peak property was sold by the Administrators' for its 2001 carrying value of \$4,500,000. The proceeds from the sale are transferred to the Trustee for Admitted Creditors.
 (d) Goodwill arising through the issue of the Proponent Shareholders' Shares.
 (e) The Admitted Creditors forgoing their previous entitlements under the DOCA.
 (f) The net increase in share capital as a result of the Recapitalisation Proposal:

	\$
The Issue (30,000,000 Ordinary Shares)	6,000,000
Proponent Shareholders' Shares (9,003,613 Ordinary Shares)	1,800,000
Admitted Creditors' Shares (6,002,408 Ordinary Shares)	1,200,000
Costs of the Issue	(270,000)
Net share capital movement	8,730,000

- (g) The movement in Accumulated Losses results from the costs of the restructure.

8.8.1 Effect of Minimum Subscription and Oversubscriptions

Should subscriptions only be received for the minimum subscription of 15,000,000 New Shares the following adjustments would occur to the above pro forma post restructure balance sheet:

- Cash would reduce by \$2,700,000 to \$1,430,000;
- Goodwill would decrease by \$500,000 to \$1,300,000;
- Net assets would decrease by \$3,200,000 to \$25,230,000;
- Contributed equity would decrease by \$3,500,000 to \$764,463,000;
- Accumulated losses would decrease by \$300,000 to \$773,044; and
- Total equity would reduce by \$3,200,000 to \$25,230,000.

Should the issue be fully subscribed, including oversubscriptions for 5,002,007 New Shares, the issue would increase to 35,014,049 New Shares and the following adjustments would occur to the above pro forma post restructure balance sheet:

- Cash would increase by \$900,000 to \$5,030,000;
- Net assets would increase by \$900,000 to \$29,330,000;
- Contributed equity would increase by \$1,000,000 to \$768,963,000;
- Accumulated losses would increase by \$100,000 to \$773,444; and
- Total equity would increase by \$900,000 to \$29,330,000.

8.9 Identity of Proponent Shareholders

The Proponent Directors hold approximately 84% of the Proponent's Issued Shares at the date of this Statement. Proponent Shareholders' Shares will be issued to shareholders of the Proponent, including the Proponent's Directors in proportion to their holdings of Proponent's Issued Shares, but the actual number of the Proponent Shareholders' Shares to be issued to each Proponent's Director is not known at this time as the continuing funding requirements of the Proponent may result in a reduction of the percentage of the Proponent's Issued Shares that the Proponent's Directors may hold at the Termination Date. The maximum number of Proponent Shareholders' Shares is capped as set out in Section 1.10.

8.10 Particulars of the Terms of any Contract Entered into

There are no contracts entered into, or proposed to be entered into by any Proponent Shareholder with the Company, or any of their Associates, conditional or (directly or indirectly) dependent upon the approval of the Recapitalisation Proposal other than:

- the Merger Documentation; and
- the intention that Stephen Ross de Belle be invited to undertake the role of Managing Director of the company.

8.11 Changes to the Financial or Dividend Policies

The Proponent's Directors do not intend to change significantly the financial or dividend policies of the Company.

8.12 Effect on the Company

The effect on the Company of the Share Consolidation is set out in Section 2.3.1.

The effect of the full implementation of the Recapitalisation Proposal (other than the Share Consolidation) on the Company will be that:

- The Company will cease to be subject to the DOCA as from the Termination Date: (see Section 1.6).
- The Company will cease to be subject to Claims that existed before the Administration Date: (see Section 1.6 and 1.7).
- The Trust Assets will cease to be owned by the Company and the assets of the Company thereby reduced (for no consideration other than the discharge and extinguishment of the Claims and the issue of the Admitted Creditors' Shares) and therefore Existing Shareholders will cease to have an interest in the Trust Assets through their shareholding in the Company. This is reflected in the Balance Sheet: (see Section 8.8).
- The Company will have the benefit of the proceeds of the Issue (subject to the obligation to make Creditor Payment No. 1 and also repayment of the Proponent Shareholders' Loans and (depending on the level of success of the Issue) Creditor Payment No. 2 and thereby be able to pursue its business development objectives under the Business Plan.
- The Company will acquire the Proponent as a wholly owned subsidiary.
- Quotation of the Ordinary Shares (other than those classified as restricted securities by ASX) will:
 - create a market for those Ordinary Shares through ASX; and
 - facilitate further capital raisings by the Company.

8.13 Effect on Existing Shareholders

If the Resolutions are approved at the General Meeting and Minimum Subscription under the Issue is achieved the ownership interest of the Existing Shareholders in percentage terms in the Company (**Existing**

Shareholder Interests) will be reduced by the issue of the Admitted Creditors' Shares and the Proponent Shareholders' Shares: see Section 1.11.

Whether Existing Shareholder Interests will otherwise be reduced will depend on whether Existing Shareholders accept their Existing Shareholders' Entitlement under the Issue (see Section 2.3.2) and whether the Company effects any Share Placement (see Section 1.6).

This Statement does not otherwise consider how the Recapitalisation Proposal may affect individual Existing Shareholders due to the variable taxation, financial and other circumstances that may apply. Individual Existing Shareholders should seek their own professional advice on how the approval of the Recapitalisation Proposal may affect them.

8.14 Effect on Creditors

The Recapitalisation Proposal will have the effect on the liability of the Company to any Claim of a creditor whether secured or unsecured as set out in Section 1.6.

9. DEFINITIONS

In this Statement:

Administration Date means 27 November 2001, the date on which the Administrators were appointed, or taken to be appointed, as administrators of the Company pursuant to section 436A of the Corporations Act.

Administrators and **Deed Administrators** means Bryan Kevin Hughes and Vincent Anthony Smith of Norgard Clohessy, in their capacity as deed administrators of the DOCA.

Administrator's Funding means the amount that the Reconstruction Deed requires the Deed Administrators to provide, on behalf of the Company, up to \$100,000 towards any costs and expenses of implementing the Recapitalisation Proposal.

Admitted Claim means a Claim of an Admitted Creditor the proof of debt for which is accepted by the Administrators or Trustee.

Admitted Creditor means any person with a Claim which has been accepted by the Administrators or Trustees.

Admitted Creditors' Shares means 6,002,408 Ordinary Shares, to form part of the Available Assets and to be allotted at the discretion of the Trustee to either or both (and if to both, in such proportions between them as the Trustee may in his discretion determine) of:

- (a) the Trustee to be held on behalf of the Admitted Creditors subject to the terms of the Trust Deed; or
- (b) the Admitted Creditors in such proportions as notified to the Company by the Trustee.

Anticipated Share Issue means up to approximately 45 million fully paid Ordinary Shares including the Admitted Creditors' Shares and the Proponent Shareholders' Shares.

ASIC means the Australian Securities and Investments Commission.

Associate has the meaning set out in Sections 11 to 17 of the Corporations Act.

ASX means Australian Stock Exchange Limited ACN 008 624 691.

Balance Sheet means the consolidated pro forma balance sheet for the Company and the Proponent set out in Section 8.8.

Board means the Board of Directors of the Company.

Broker means a member corporation of the ASX.

Broker's Agreement means an agreement for the management of the Issue.

Business Day means a day that is not a Saturday or Sunday, or a public holiday or bank holiday in Western Australia.

Business Plan means the description of the key elements of the activities and developments proposed by the Proponent for the Company, as described in the background material pursuant to Resolution 2.

Claim means a debt payable by, or a claim against, the Company (present or future, certain or contingent, ascertained or sounding only in damages) being a debt or claim due or which may become due as a result of anything done or omitted by or on behalf of the Company on or before the Administration Date.

Company means Kingstream Steel Limited ACN 009 224 800 (Subject to Deed of Company Arrangement).

Corporations Act means the Corporations Act 2001 (Cth).

Creditor means any person having a Claim.

Creditor Payment No.1 means \$1 million plus the amount of the Administrator's Funding.

Creditor Payment No.2 means an amount equal to 10% of the amount by which the gross proceeds of the Issue exceeds \$3 million, provided that the total amount to be so paid will not exceed \$700,000.

Creditor Payment No.3 means, if the Company raises further capital within the 12 months immediately

following the Issue, an amount equal to 10% of the gross amount of the capital so raised (Agreed Payment), provided that:

- (a) the total amount paid to the Trustee under Creditor Payment No 1, Creditor Payment No 2 and the Agreed Payment combined shall not exceed \$1,800,000; and
- (b) the amount so paid, together with the value of the Admitted Creditors' Shares at the date of the Issue (determined at 20 cents per share), shall not exceed the amount required to pay any amount for which the Administrators are to be indemnified and the total amount of Admitted Claims in full.

Creditors' Committee means the committee of creditors of the Company established under the DOCA.

Creditors' Resolution means the resolution passed at a meeting of Creditors of the Company held on 14 March 2002 approving the Administrators of the Company executing a deed of company arrangement with the Company.

Direct Shipping Ore means iron ore with a grade (including relative absence of impurities) making it potentially economically worthwhile to export it to overseas buyers. In practice, this rarely means magnetite ore, due to its typically low inherent iron content.

Directors means the directors of the Company.

DOCA means the deed of company arrangement of the Company entered into on 3 April 2002, as amended on 28 November 2002, pursuant to which the Administrators have been charged with continuing the administration of the Company while addressing the interests of creditors and shareholders.

DRI/HBI means direct reduced iron (meaning iron ore supplied in pellet form from which the formerly attached oxygen elements have been stripped) which is then compressed into small briquettes which look like (and are) very similar to pig iron (which facilitates storage and handling).

EAF means an electric arc furnace, used for making steel. They are typically much smaller than blast furnaces (which obtain their heat via coal and coke rather than via electricity) and use pig iron and or DRI/HBI and/or scrap steel as their feedstock.

Escrow Period means the period of 12 months from the Record Date.

Existing Director means a person who was a Director of the Company at the Administration Date and who has not ceased to be such immediately before the General Meeting.

Existing Ordinary Shares means the issued ordinary shares in the Company before the Share Consolidation.

Existing Shareholder means the holder of an Existing Ordinary Share.

General Meeting means the meeting of the Existing Shareholders convened for the purposes (including others) of considering the Resolutions for the approval of the Recapitalisation Proposal under Section 208 of the Corporations Act.

Interim Funding means the Proponent's Loan and the Administrators' Funding.

Iron Ore Pellets means pellets (ball, say, 20 mm in diameter) of ground, beneficiated (upgraded) iron ore. The pellets are used as input for two processes in the steel industry. One is as feedstock for making DRI/HBI for the EAF steel market (see above). The other is as blend stock for making blast furnace steel. The former typically commands a slightly higher price. Magnetite ore, such as the larger part of the Koolanooka deposit, is more suitable for making iron ore pellets than haematite ore, due to the former's magnetic properties facilitating the binding of the ground ore.

Issue means the issue of up to approximately 35 million Ordinary Shares, with a minimum issue of 15 million and a target issue of 30 million new Ordinary Shares, at \$0.20 each.

Leelock Mortgage means mortgages dated 12 September 2001, 17 September 2001 and 17 October 2001 over property of the Company.

Listing Rules means the Listing Rules of the ASX.

Merger Documentation means such document as is necessary or as may be required by the Administrators to give effect to the exchange of the Proponent's Issued Shares for the Proponent Shareholder's Shares, which

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document may contain warranties by the Proponent and the Proponent's Directors concerning the financial position of the Proponent or other matters as the Administrators may require.

Merger Proposal means the issue of the Proponent Shareholder's Shares in exchange for the Proponent's Issued Shares.

Minimum Subscription means the due subscription and payment for 15 million Ordinary Shares under the Prospectus to raise \$3 million.

MGI means Mount Gibson Iron Ltd ACN 008 670 817.

New Shares means the Ordinary Shares issued or to be issued under the Issue, the Admitted Creditors' Shares and the Proponent Shareholders' Shares.

Norvest means Norvest Corporate Pty Limited ACN 092 381 283.

Notice of Meeting means the notice convening the General Meeting accompanying this Statement.

Operative Time means the time at which the last of the following occurs:

- (a) the achievement of the Minimum Subscription;
- (b) the issue and allotment of Ordinary Shares under the Issue;
- (c) the issue and allotment of the Admitted Creditors' Shares;
- (d) the payment by the Company to the Administrators or at the election of the Administrators to the Trustee, for the benefit of the Admitted Creditors, of Creditor Payments Nos 1 and 2;
- (e) the provision to the Company of the discharge of the Tippen Mortgage and the Leelock Mortgage.

Option means an issued option to acquire an ordinary share in the capital of the Company subject to the terms and conditions of issue of the option.

Ordinary Shares means fully paid ordinary shares in the Company after the Share Consolidation.

Proponent means Koolanooka Pellets Pty Limited ACN 099 283 815.

Proponent Shareholders means at a point in time the shareholders in the Proponent as at the time.

Proponent Shareholders' Shares means 9,003,613 Ordinary Shares to be issued to the Proponent or at the Proponent's request in accordance with the Reconstruction Deed provided that, if the total number of Ordinary Shares at Reinstatement, including the Proponent Shareholders' Shares (Total Issued Shares) is such that the Proponent Shareholders' Shares constitute more than 19.9% of the Total Issued Shares, then the Proponent Shareholders' Shares shall be 19.9% of the Total Issued Shares.

Proponent's Directors means Stephen Ross de Belle, Robert Harry Duffin and Jesse Kavanaugh Taylor.

Proponent's Issued Shares means all of the issued capital of the Proponent immediately before the time that the Proponent becomes a wholly owned subsidiary of the Company.

Proponent's Loan means an advance of up to \$280,000 or any other amount as may be notified to the General Meeting before the passage of Resolution 2 by the Proponent to the Company, as an interest-free, unsecured loan, on account of the Administrators' costs and expenses in implementing the Recapitalisation Proposal.

Proponent's Proposal means the letter of 27 August 2002 from the Proponent to the Administrators as subsequently amended and definitively reflected in the Reconstruction Deed between those parties and the Company.

Proponent's Shareholders Loans means the loans made by the Proponent Shareholders to the Proponent to a maximum aggregate amount of \$280,000 or any other amount as may be notified to the General Meeting before the passage of Resolution 2.

Prospectus means a prospectus to be contained in a schedule to the Underwriters' Agreement and to be lodged on the Lodgement Date (as that term is to be defined in the Underwriters' Agreement) with ASIC and includes any supplementary prospectus lodged pursuant to section 719 of the Corporations Act as either the Broker or the Underwriter in its absolute discretion may approve.

Quotation means quotation as defined in the Listing Rules except for Ordinary Shares that are restricted securities under the Listing Rules.

Recapitalisation Proposal means:

- (a) the Share Consolidation;
- (b) the Issue;
- (c) the issue of the Proponent Shareholders' Shares;
- (d) the issue of the Admitted Creditors' Shares;
- (e) the repayment of the Interim Funding;
- (f) the appointment of the Proponent's Directors as the Board;
- (g) the Company changing its name;
- (h) Reinstatement; and
- (i) such other reasonably incidental matters satisfactory to the Administrators in their discretion.

Recapitalisation Proposal Conditions means the following conditions:

- (a) the Company and the Broker entering into the Broker's Agreement and the Company and the Underwriter entering into the Underwriters' Agreement;
- (b) obtaining 'Shareholder Approvals' required under clause 5.1 of the Reconstruction Deed;
- (c) the ASX giving its conditional approval (on terms satisfactory to the Proponent and the Administrators) to the Issue proceeding and to Reinstatement; and
- (d) the Administrators being reasonably satisfied that the Administrators will not be liable under section 729 of the Corporations Act for any loss or damage caused by any contravention of section 728(1) of the Corporations Act in relation to any disclosure document for the Issue.

Reconstruction Deed means the deed dated 1 November 2002 between the Administrators, the Company and the Proponent as amended from time to time.

Record Date means 7 days from the date of the General Meeting.

Reinstatement means reinstatement of all the Ordinary Shares to Quotation except for Ordinary Shares that are restricted securities under the Listing Rules.

Related party means a party so defined by section 228 of the Corporations Act

Resolution means a resolution proposed to be passed at the General Meeting and contained in the Notice of Meeting.

Secured Creditor means any person with a Claim who has security (whether adequate or not) over the property of the Company with respect to that Claim.

Shareholder Approval means in relation to a Resolution approval of the shareholders of the Company in general meeting in accordance with the requirements of the Corporations Act and the Listing Rules applicable to the Resolution.

Share Consolidation means the consolidation of the issued share capital of the Company on the basis of 1:100 from the existing 500,200,655 shares to no more than 5,002,007 Ordinary Shares as proposed under Resolution 2.

Tallering Peak means the tenements which are subject to the document titled 'Mining Rights and Sale Agreement' (dated 10 July 2002) between the Company, the Administrators, Mount Gibson Iron Limited and Mount Gibson Mining Limited (ACN 074 575 885).

Termination Date means the occurrence of the Operative Time or such later time as the Proponent may notify the Administrators for the purpose of meeting any requirement of the Corporations Act in relation to the Prospectus.

Tippen Mortgage means mortgages numbered and dated H 878309 dated 24 April 2001, H 878310 dated 5 July 2001 and H 878311 dated 21 May 2001 over property of the Company.

EXPLANATORY STATEMENT TO SHAREHOLDERS

Trust Assets means:

- (a) all money, shares, notes or other consideration paid or transferred or payable or transferable to the Company pursuant to the Mining Rights and Sale Agreement, together with all securities for the payment or transfer of the same, and all other rights or claims arising out of or in any way connected with the Mining Rights and Sale Agreement;
- (b) all of the Company's rights, entitlements and claims in or in respect of any claim of whatsoever nature that the Company may have against St Barbara Mines Limited and Zygot Limited relating to mining lease applications ML 20/343, ML 20/344 and ML 51/641 as currently asserted in the Supreme Court of Western Australia in action CIV 1913 of 2002 or otherwise; and
- (c) all money, shares or other property paid, issued or transferred or payable or to be issued or transferred by the Company or another person to the Administrators or Trustee under the Reconstruction Deed for the benefit of the Admitted Creditors including, without limitation, the Admitted Creditors' Shares, the Administrators' Funding and any of Creditor Payments Nos. 1, 2 and 3.

and includes the proceeds of any such asset whether in the hands of the Company, the Administrators or the Trustee.

Trust Deed means a deed in the form attached as Annexure A to the DOCA or such other form acceptable to the Administrators.

Trust Fund means the assets held by the Trustee under the Trust Deed from time to time being initially the Trust Assets.

Trustee means the Trustee for the Trust Fund established by the Administrators for the benefit of Admitted Creditors and which will hold certain assets for the benefit of the latter and to meet relevant costs.

Underwriter means the underwriter of the Issue in the Underwriters' Agreement when executed.

Underwriters' Agreement means an underwriting agreement regarding a prospective underwriting of the exact proposal as set out in the Prospectus for the Issue and only able to be implemented when that Prospectus is final.

ANNEXURE 1**TERMS OF OPTIONS TO BE ISSUED TO NORVEST CORPORATE PTY LTD**

The terms and conditions of the options are as follows:

- (a) Each option shall entitle the holder to subscribe for and to be allotted one share in the capital of the Company upon exercise of the option and payment to the Company of the Exercise Price.
- (b) The Exercise Price of each option is 20 cents per share.
- (c) Each option will automatically lapse if not exercised on or before 31 March 2007.
- (d) An option may be exercised by the optionholder at any time prior to the expiry date by sending a completed and signed notice of exercise, together with the payment of the exercise price and the certificate for the option, to the Company's share registry. If the optionholder holds more than one option, the options may be exercised in whole or in part.
- (e) A notice of exercise is only effective when the Company has received the full amount of the exercise price in cash or cleared funds.
- (f) Subject to any restrictions in the Listing Rules, within 14 days of receipt of a properly executed notice of exercise and the required application moneys the number of shares specified in the notice will be allotted.
- (g) Each certificate will bear a suitable form of notice of exercise of the options, endorsed on the back of the certificate, for completion by the optionholder (if required). If the options comprised in any such certificate are exercised in part only, before the expiry date, the Company will issue the optionholder with a fresh certificate for the balance of the options held and not yet exercised.
- (h) The period during which the options may be exercised will not be extended.
- (i) The optionholder is not entitled to participate in new issues of securities offered to shareholders. The optionholder can participate in new issues of securities offered to shareholders if the option is exercised before the relevant record date for that new issue.
- (j) If from time to time before the expiry of the options the Company makes an issue of shares to the holders of ordinary shares by way of capitalisation of profits or reserves (a "bonus issue") other than in lieu of a dividend payment, then upon exercise of an option the optionholder will be entitled to have issued to it (in addition to the shares which it is otherwise entitled to have issued to it upon such exercise) additional shares in the Company. The number of additional shares is the number of shares which would have been issued to it under that bonus issue ("bonus shares") if on the date on which entitlements were calculated it had been registered as the holder of the number of shares which it would have been registered as holder if immediately before that date it had exercised its options. The bonus shares will be paid up by the Company out of profits or reserves (as the case may be) in the same manner as was applied in relation to the bonus issue and upon issue will rank *pari passu* in all respects with the other shares allotted upon exercise of the options.
- (k) In the event of any reconstruction (including consolidation, subdivision, reduction, cancellation or return) of the issued capital of the Company before the expiry of any options, all rights of the optionholder, will be reconstructed (as appropriate) in accordance with the Listing Rules applying to a re-organisation of capital at the time of the re-organisation.
- (l) Shares allotted pursuant to the exercise of the options will rank equally with the then issued ordinary shares of the Company.
- (m) The Company undertakes to apply for official quotation by the ASX of all ordinary shares allotted pursuant to the exercise of any options, within 10 business days of the date of allotment of those new ordinary Shares.
- (n) The option does not confer the right to a change in Exercise Price, or a change to the number of underlying securities over which it can be exercised.

NOTICE OF A GENERAL MEETING

KINGSTREAM STEEL LIMITED

ACN 009 224 800
(Subject to Deed of Company Arrangement)

NOTICE OF A GENERAL MEETING

Notice is given that a general meeting of the members will be held on the date and at the location and time specified below.

DATE	10 April 2003
LOCATION	Parmelia Room, Parmelia Hilton Hotel, Mill Street, Perth WA
TIME	11.00 am

Words and phrases used in the Resolutions and defined in the accompanying Explanatory Statement have the same meaning in this Notice of Meeting as defined in the Explanatory Statement.

BUSINESS

The business to be transacted at the General Meeting is the proposal of Resolutions 1 to 11 (see below) and includes the receipt and consideration in respect of the financial year of the Company ended 31 December 2001 of the following:

- (a) the Statement of Financial Position (Balance Sheet) of the Company
- (b) the Statement of Financial Performance (Profit and Loss Account) of the Company.

Resolution 1: Consolidation of Capital

To propose and, if thought fit, to pass the following resolution with or without amendment:

“That subject to all other ordinary Resolutions in this Notice of Meeting being passed by the requisite majorities, approval be and is hereby given to the consolidation of the Existing Ordinary Shares in the Company on a 1 for 100 basis, with a Record Date being 5 days from the date of the meeting at which this Resolution is passed, and with the resulting shares being called Ordinary Shares in the Company provided that if an Existing Shareholder holds a number of Existing Ordinary Shares which is not evenly divisible by 100, the number of replacement Ordinary Shares credited to that Existing Shareholder will be rounded down to the nearest whole number.”

Resolution 2: Issue

To propose and, if thought fit, to pass the following resolution with or without amendment:

“That subject to all other ordinary Resolutions in this Notice of Meeting being passed by the requisite majorities, for the purposes of Listing Rules 7.1 and 7.3 and all other purposes, approval be and is hereby given to the issue of up to 35,014,049 fully paid Ordinary Shares in the Company at a price of \$0.20 each subject to the achievement of Minimum Subscription on the following basis:

- (a) First, as to a total of 5,002,007 Ordinary Shares under a prospectus by way of a pro rata, one for one, non renounceable rights issue to the Existing Shareholders; and
- (b) Second, a general issue of any shortfall in the pro rata rights issue and up to 30,012,042 further Ordinary Shares, including oversubscriptions of 5,002,007 Ordinary Shares, with a priority entitlement for Existing Shareholders. The Company will limit the number of Ordinary Shares it issues to Existing Shareholders to the higher of 5% of all the securities being offered and the number the Existing Shareholder would be entitled to under a pro rata issue of all those Ordinary Shares

and the proceeds of the raising be applied in part to repay the Proponent's Shareholders Loan.

Resolution 3: Debt Capitalisation

To propose and, if thought fit, to pass the following resolution with or without amendment:

“That subject to all other ordinary Resolutions in this Notice of Meeting being passed by the requisite majorities, for the purposes of Listing Rules 7.1 and 7.3 and all other purposes, approval be and is hereby given, subject to the achievement of Minimum Subscription, to the issue of 6,002,408 fully paid Ordinary Shares in the Company to the Trustee on the terms described in the Explanatory Statement attached to and forming part of this Notice of Meeting. These Ordinary Shares to be issued no later than 3 months after the date of this meeting.”

Resolution 4: Merger

To propose and, if thought fit, to pass the following resolution:

“That subject to all other ordinary Resolutions in this Notice of Meeting being passed by the requisite majorities, for the purposes of Section 208 of the Corporations Act, Listing Rules 7.1 and 7.3 and all other purposes, approval be and is hereby given to the merger of the Company with Koolanooka Pellets Pty Limited ACN 099 283 815 on the basis of, subject to the achievement of Minimum Subscription, the issue of up to 9,003,613 million fully paid Ordinary Shares in the Company to the shareholders of Koolanooka Pellets Pty Limited ACN 099 283 815 in exchange for 100% of the issued shares in Koolanooka Pellets Pty Limited ACN 099 283 815, in recognition of the value being provided to the Shareholders via the implementation of the Recapitalisation Proposal, with the record date for the issue of those shares being the date on which the Company ceases to be subject to the Deed of Company Arrangement on implementation of the Proposal. These Ordinary Shares will be issued at a deemed issue price of 20 cents per share and will be issued no later than 3 months after the date of this meeting.”

Resolution 5: Options Issue

To propose and, if thought fit, to pass the following resolution with or without amendment:

“That subject to all other ordinary Resolutions in this Notice of Meeting being passed by the requisite majorities, for the purposes of Listing Rules 7.1 and 7.3 and all other purposes, approval be and is hereby given to the issue, subject to the achievement of Minimum Subscription, of up to 550,221 Options with the ultimate number of Options issued not to exceed 1% of the number of fully paid Ordinary Shares in the Company, with an exercise price of 20 cents on or before the expiry of four years from their date of issue. These Options are being issued for nil cash consideration and will be issued no later than 3 months after the date of this meeting.”

Resolution 6: Change of Name of Company

To propose and, if thought fit, to pass the following resolution as a special resolution:

“That the Company change its name to Midwest Corporation Limited ACN 009 224 800.”

Resolution 7: Adoption of New Constitution

To propose and, if thought fit, to pass the following resolution as a special resolution:

“That the regulations contained in the document tabled at the Meeting and signed by the Deed Administrators for identification purposes as the Constitution of the Company be adopted as the Constitution of the Company in substitution for and to the exclusion of the Company’s existing Constitution.

Resolution 8: Appointment of Stephen Ross de Belle

To propose and, if thought fit, to pass the following resolution with or without amendment:

“That subject to all other ordinary Resolutions in this Notice of Meeting being passed by the requisite majorities, Stephen Ross de Belle be appointed a director of the Company.”

Resolution 9: Appointment of Robert Harry Duffin

To propose and, if thought fit, to pass the following resolution with or without amendment:

“That subject to all other ordinary Resolutions in this Notice of Meeting being passed by the requisite majorities, Robert Harry Duffin be appointed a director of the Company.”

Resolution 10: Appointment of Jesse Kavanaugh Taylor

To propose and, if thought fit, to pass the following resolution with or without amendment:

“That subject to all other ordinary Resolutions in this Notice of Meeting being passed by the requisite majorities, Jesse Kavanaugh Taylor be appointed a director of the Company.”

Resolution 11: Website Information

To propose and, if thought fit, to pass the following resolution with or without amendment:

“That subject to all other ordinary Resolutions in this Notice of Meeting being passed by the requisite majorities, approval be and is hereby given to the posting on the Web of information, notices, advices, reports, including annual and semi-annual reports and accounts, and similar written and printed material generally, and to the posting on the Web of the prospectus contemplated by Resolution 2, and to those postings on the Web being full and complete satisfaction of information issue requirements, provided that printed copies be promptly available and mailed on request to a party having a right to such information and making such a request.”

Resolution 12: Number of Directors

If Resolution 7 is not approved, to propose and, if thought fit, to pass the following resolution with or without amendment:

“The relevant provisions of the Company’s Constitution be amended to permit the minimum number of directors to be three (3).”

VOTING EXCLUSION STATEMENT

The following voting exclusion statement applies to the following Resolutions under the following Listing Rules or where applicable the provisions of the Corporations Act to the following persons (Excluded Person).

Resolution No	Title	Voting Restriction Imposed by...	Excluded Persons
Resolution 2	Issue	Section 224(1) Corporations Act	A vote on the Related Party Resolution must not be cast (in any capacity) by or on behalf of a related party of the Company to whom the Related Party Resolution would permit a financial benefit to be given or an Associate of such a related party.***
Resolution 3	Debt Capitalisation	Listing Rule 7.1**	A person who may participate in the proposed issue and a person who might obtain a benefit, except a benefit solely in the capacity of a security holder (as defined in the Listing Rules), if the resolution is passed.
Resolution 4	Merger Proposal	Section 224(1) Corporations Act. Listing Rule 7.1**	A vote on the Related Party Resolution must not be cast (in any capacity) by or on behalf of a related party of the Company to whom the Related Party Resolution would permit a financial benefit to be given or an Associate of such a related party.*** Koolanooka Pellets Pty Limited and any other person, being a person who may participate in the proposed issue and a person who might obtain a benefit, except a benefit solely in the capacity of a security holder (as defined in the Listing Rules), if the resolution is passed.
Resolution 5	Options Issue	Listing Rule 7.1**	Norvest and any other person, being a person who may participate in the proposed issue and a person who might obtain a benefit, except a benefit solely in the capacity of a security holder (as defined in the Listing Rules), if the resolution is passed.

** Where, by the Listing Rules, the Notice of Meeting must include a voting exclusion statement in relation to a Resolution the entity will disregard any votes cast on the Resolution by the Excluded Persons for that Resolution noted below and an Associate of any such Excluded Person, however, the Company need not disregard a vote if:

- it is cast by a person as proxy for a person who is entitled to vote, in accordance with the direction on the proxy form; or
- it is cast by the person chairing the Meeting as proxy for a person who is entitled to vote, in accordance with a direction on the proxy form to vote as the proxy decides.

*** This voting prohibition does not prevent the casting of a vote if: it is cast by a person as a proxy appointed by writing that specifies how the proxy is to vote on the proposed resolution; and it is not cast on behalf of such a related party or associate; or the regulations prescribe cases where the voting prohibition does not apply.

NOTICE OF A GENERAL MEETING

Other Resolutions

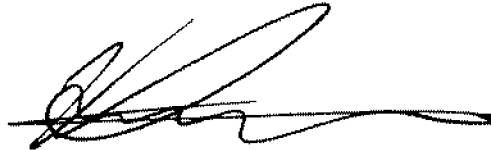
There are no relevant voting restrictions imposed on any of the other Resolutions.

Dated this 25 February 2003



BRYAN HUGHES

Joint and Several
Deed Administrator

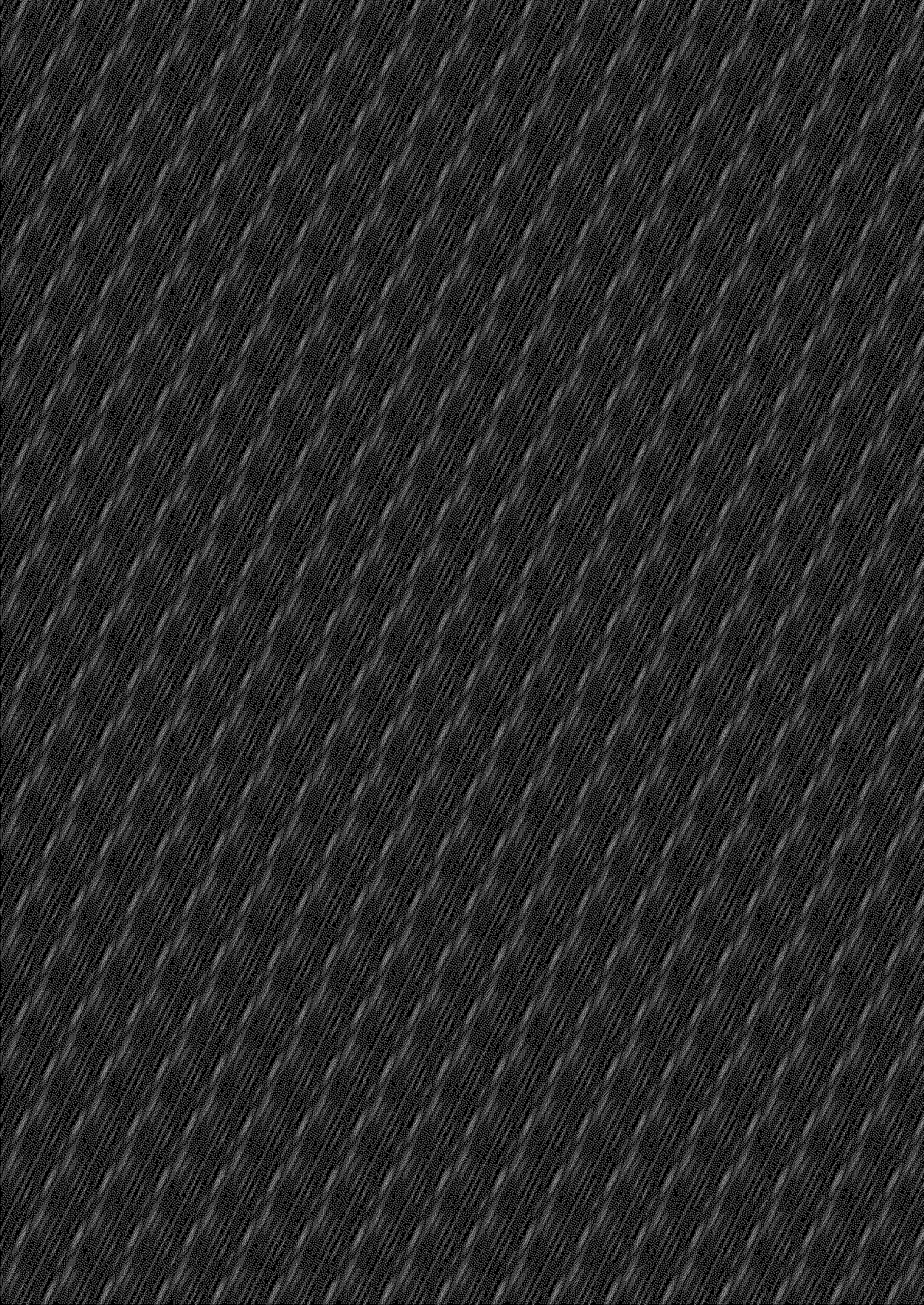


VINCENT SMITH

Joint and Several
Deed Administrator

NOTE

A member entitled to vote at this Meeting is entitled to appoint a proxy to attend and vote for the member at the Meeting. A proxy need not be a member. If the member is entitled to cast 2 or more votes at the Meeting the member may appoint 2 proxies. If a member appoints 2 proxies and the appointment does not specify the proportion or number of the members votes each proxy may exercise, each proxy may exercise half of the votes. A form of proxy is attached to this notice.



All correspondence to:
 Computershare Investor Services Pty Limited
 GPO Box D182 Perth
 Western Australia 6840 Australia
 Enquiries (within Australia) 1300 557 010
 (outside Australia) 61 3 9615 5970
 Facsimile 61 8 9323 2033
 www.computershare.com

Mark this box with an 'X' if you have made any changes to your address details (see reverse)



2 Appointment of Proxy

We being a member/s of Kingstream Steel Limited, and entitled to attend and vote hereby appoint



the Chairman of the Meeting (mark with an 'X')

OR

[Empty box for appointing a proxy other than the Chairman]

Write here the name of the person you are appointing if this person is **someone other than** the Chairman of the Meeting.

or failing the person named, or if no person is named, the Chairman of the Meeting, as my/our proxy and to vote to act generally at the meeting on my/our behalf and to vote in accordance with the following directions (or if no directions have been given, as the proxy sees fit) at the General Meeting of Kingstream Steel Limited to be held at The Parmelia Room, Parmelia Hilton, Mill Street, Perth on 18 April 2003 at 11am and at any adjournment of that meeting.

IMPORTANT: FOR ITEMS 2, 3, 4 AND 8 BELOW



If the Chairman of the Meeting is to be your proxy and you have not directed your proxy how to vote on Items 2, 3, 4 and 5 below, please place a mark in this box. By marking this box you acknowledge that the Chairman of the Meeting may exercise your proxy even if he has an interest in the outcome of those Items and that votes cast by him, other than as proxy holder, would be disregarded because of that interest. If you do not mark this box, and you have not directed your proxy how to vote, the Chairman of the Meeting will not cast your votes on Items 2, 3, 4 and 5 and your votes will not be counted in computing the required majority if a poll is called on these Items. The Chairman of the Meeting intends to vote undirected proxies in favour of each item.

3 Voting directions to your proxy - please mark X to indicate your directions

	For	Against	Abstain*		For	Against	Abstain*
1. Approve Consolidation	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	7. Approve Adoption of Constitution	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
2. Approve Issue	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	8. Approve Appointment No 1	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
3. Approve Debt Capitalisation	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	9. Approve Appointment No 2	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
4. Approve Merger	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	10. Approve Appointment No 3	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
5. Approve Issue of Options	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	11. Approve Posting on the Web	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
6. Approve Company Name	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	12. Approve Number of Directors	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

* If you mark the Abstain box for a particular item, you are directing your proxy not to vote on your behalf on a show of hands or on a poll, or if your votes entitlement cannot be voted by the Chairman of the Meeting, your votes will not be counted in computing the required majority on a poll.

4 Appointing a second Proxy

We wish to appoint a second proxy



Mark with an 'X' if you wish to appoint a second proxy.

AND

[Box for percentage]

%

OR

[Box for number of securities]

State the percentage of your voting rights or the number of securities for this Proxy Form.

5 PLEASE SIGN HERE

This section *must* be signed in accordance with the instructions overleaf to enable your directions to be implemented.

Individual or Securityholder 1

[Signature box for Individual or Securityholder 1]

Sole Director and Sole Company Secretary

Securityholder 2

[Signature box for Securityholder 2]

Director

Securityholder 3

[Signature box for Securityholder 3]

Director/Company Secretary

Contact Name

Contact Daytime Telephone

Date



How to complete the Proxy Form

1 Your Address

This is your address as it appears on the company's share register. If this information is incorrect, please mark the box and make the correction on the form. Securityholders sponsored by a broker (in which case your reference number overleaf will commence with an 'x') should advise your broker of any changes. **Please note, you cannot change ownership of your securities using this form.**

2 Appointment of a Proxy

If you wish to appoint the Chairman of the Meeting as your proxy, mark the box. If the person you wish to appoint as your proxy is someone other than the Chairman of the Meeting please write the name of that person. If you leave this section blank, or your named proxy does not attend the meeting, the Chairman of the Meeting will be your proxy. A proxy need not be a securityholder of the company.

3 Votes on Items of Business

You may direct your proxy how to vote by placing a mark in one of the three boxes opposite each item of business. All your securities will be voted in accordance with such a direction unless you indicate only a portion of voting rights on any item by inserting the percentage or number of securities you wish to vote in the appropriate box or boxes. If you do not mark any of the boxes on a given item, your proxy may vote as he or she chooses. If you mark more than one box on an item your vote on that item will be invalid.

4 Appointment of a Second Proxy

You are entitled to appoint up to two persons as proxies to attend the meeting and vote on a poll. If you wish to appoint a second proxy, an additional Proxy Form may be obtained by telephoning the company's share registry or you may copy this form.

To appoint a second proxy you must:

- (a) indicate that you wish to appoint a second proxy by marking the box.
- (a) on each of the first Proxy Form and the second Proxy Form state the percentage of your voting rights or number of shares applicable to that form. If the appointments do not specify the percentage or number of votes that each proxy may exercise, each proxy may exercise half your votes. Fractions of votes will be disregarded.
- (b) return both forms together in the same envelope.

5 Signing Instructions

You must sign this form as follows in the spaces provided:

Individual: where the holding is in one name, the holder must sign.

Joint Holding: where the holding is in more than one name, all of the securityholders should sign.

Power of Attorney: to sign under Power of Attorney, you must have already lodged this document with the registry. If you have not previously lodged this document for notation, please attach a certified photocopy of the Power of Attorney to this form when you return it.

Companies: where the company has a Sole Director who is also the Sole Company Secretary, this form must be signed by that person. If the company (pursuant to section 204A of the Corporations Act 2001) does not have a Company Secretary, a Sole Director can also sign alone. Otherwise this form must be signed by a Director jointly with either another Director or a Company Secretary. Please indicate the office held by signing in the appropriate place.

If a representative of the corporation is to attend the meeting the appropriate "Certificate of Appointment of Corporate Representative" should be produced prior to admission. A form of the certificate may be obtained from the company's share registry.

Lodgement of a Proxy

This Proxy Form (and any Power of Attorney or certified photocopy of the Power of Attorney under which it is signed) must be received at an address given below not later than 48 hours before the commencement of the meeting at 11am, 10 April 2003. Any Proxy Form received after that time will not be valid for the scheduled meeting.

Documents may be lodged using the reply paid envelope or:
by posting, delivery or facsimile to Kingstream Steel Limited share registry at the address opposite, or
by delivery or facsimile to the Registered Office of Kingstream Steel Limited (Subject to Deed of Company Arrangement) being
10 Ord Street
WEST PERTH WA 6005

Computershare Investor Services Pty Limited
GPO Box D182
Perth Western Australia 6840
Australia
Facsimile 61 8 9323 2033

KINGSTREAM STEEL LIMITED
(SUBJECT TO DEED OF COMPANY ARRANGEMENT)
A.C.N. 009 244 800

ANNUAL REPORT

31 DECEMBER 2001

**KINGSTREAM STEEL LIMITED (SUBJECT TO DEED OF COMPANY ARRANGEMENT)
CORPORATE DIRECTORY**

DIRECTORS

Kenneth Walter Court (Chairman)
Nikolais Zuks
Rudolph Dennis Sirr

SECRETARY

Lawrence Fitzgerald

REGISTERED OFFICE

Ground Floor
17 Ord Street
WEST PERTH WA 6005

Telephone: (08) 9226 2033
Facsimile: (08) 9226 3388

AUDITORS

Ernst & Young
Chartered Accountants
Level 34, Central Park
152-158 St George's Terrace
PERTH WA 6000

SOLICITORS

Clayton Utz
108 St George's Terrace
PERTH WA 6000

Solomon Brothers
2 The Esplanade
PERTH WA 6000

SHARE REGISTRY

Computershare Investor Services Pty Ltd
Level 2, Reserve Bank Building
45 St George's Terrace
PERTH WA 6000

Telephone: (08) 9323 2000
Facsimile: (08) 9323 2033

AUSTRALIAN STOCK EXCHANGE

Kingstream Steel Limited shares (KSM) were suspended from trading on the Australian Stock Exchange Limited upon appointment of a Voluntary Administrator on 27 November 2001. Kingstream Steel Limited options (KSMO) lapsed on 31 July 2002.

KINGSTREAM STEEL LIMITED (SUBJECT TO DEED OF COMPANY ARRANGEMENT) COMPANY REVIEW

During the period under review the operating loss after income tax attributable to members was \$65,917,000.

Comments on the operations for the year are set out below:

- (a) The company completed share placements of 15,284,650 ordinary shares fully paid as consideration for services rendered and/or to be rendered.
- (b) The company was involved in negotiations with potential strategic partners and financiers to provide the necessary support to progress the Mid West Iron and Steel Project, including negotiations with US based Galaxy International Inc. to establish a convertible note facility for an amount of A\$10 million, and negotiations with US based Brighton Advisers Fund to establish a structured investment facility for an amount up to A\$15 million.
- (c) On 4 October 2001, the company appointed debis International Trading GmbH (“debis”) to advise on and structure the Mid West Iron and Steel Project, as well as to provide access, where possible and economically sensible, to other potential partners to the Project who may also enter into strategic alliance with the company.
- (d) The company was unable to conclude negotiations and therefore in the interests of all the company’s stakeholders, the company appointed Voluntary Administrators pursuant to Part 5.3A of the Corporations Act 2001 on 27 November 2001 and requested the suspension of its shares from trading on the Australian Stock Exchange Limited.

**KINGSTREAM STEEL LIMITED (SUBJECT TO DEED OF COMPANY ARRANGEMENT)
DIRECTORS' REPORT**

DIRECTORS

The directors in office during the financial year and at the date of this report are as follows:

	Special Responsibilities in Chief Entity	Relevant Interest in Securities of Chief Entity	
Kenneth Walter Court	Chairman	1,200,714	ordinary shares
Nikolais Zuks	Managing Director	15,996,184*	ordinary shares
Rudolph Dennis Sirr	Non-Executive Director	-	
Jesse Kavanaugh Taylor (Appointed 15 March 2001) (Resigned 15 October 2001)	Non-Executive Director	-	
Lord Lawson of Blaby (Appointed 31 May 2000) (Resigned 14 March 2001)	Non-Executive Director	-	
Howard Jonathan Hyman (Appointed 31 May 2000) (Resigned 14 March 2001)	Non-Executive Director	-	
Anthony Nicolas Scott Saxton (Appointed 17 March 2000) (Resigned 14 March 2001)	Non-Executive Director	-	
David Simon Karpin (Appointed 8 November 2000) (Resigned 14 March 2001)	Non-Executive Director	-	

*11,654,253 shares are held by Pavilly Pty Ltd which is in liquidation.

Directors were in office from the beginning of the financial year until the date of this report unless otherwise stated.

The particulars of the qualifications, experience and special responsibilities of each director are as follows:

Mr Kenneth Walter Court

Mr Court is a director of numerous companies. He has been actively involved with the Chamber of Commerce having been President of the Perth Chamber of Commerce, the Australian Chamber of Commerce and the Confederation of Asia-Pacific Chambers of Commerce & Industry (CACCI). Mr Court remains a member of the Advisory Board of CACCI. Mr Court is a member of the company's Audit Committee and Remuneration Committee.

Mr Nikolais Zuks

Mr Zuks has been involved in the mining, exploration and drilling industries for more than 20 years in Australia, Indonesia and Malaysia and has a wide commercial background. Mr Zuks was responsible for establishing the Midwest Iron & Steel Project.

Mr Rudi Sirr

Mr Sirr is currently a Director of Equilibrium Risk Advisory Services Limited and a Consultant Representative of Adam Brothers Contingency, Lloyds Brokers. He had been a member of the Sedgwick Group until its merger with Marsh Inc. in Perth, Western Australia. Mr Sirr is chairman of the company's Remuneration Committee. Mr Sirr joined the board as a non-executive director on the 8 November 2000.

KINGSTREAM STEEL LIMITED (SUBJECT TO DEED OF COMPANY ARRANGEMENT) DIRECTORS' REPORT

Mr Jesse Taylor

Mr Taylor has a background in project management and development finance. Mr Taylor has previously held positions as Chairman of Kaiser Engineers International responsible for co-ordination of international activities, President of a wholly owned subsidiary of Phibro Solomon responsible for development of various transportation, industrial and commercial projects and President of a financial services Joint Venture between Gesellschaft fur Tendanalysen, a German financial group, and Morgan Stanley. Mr Taylor joined the board as a non-executive director on 15 March 2001 and resigned on 15 October 2001.

Lord Lawson of Blaby

Lord Lawson was created a Life Peer in 1992. Lord Lawson had a distinguished political career having been Special Assistant to Prime Minister Sir Alec Douglas-Home from 1963 to 1964 and Chancellor of the Exchequer from 1983 to 1989. Lord Lawson was a director of Barclays Bank from 1990 to 1998 and continues to sit on a number of Boards including the Institute for International Economics (Washington), British Institute of Energy Economics and the Advisory Council, Prince's Youth Business Trust, as well as Chair of the Central European Trust. Lord Lawson was appointed Chairman on 31 May 2000 and resigned on 14 March 2001.

Howard Jonathan Hyman

Mr Hyman's firm, Howard Hyman & Associates provides corporate strategy and business development advisory services to chief executives in both the government and private sector. Previously Mr Hyman has been Deputy Chairman of Charterhouse Bank and a partner of the international accounting group, Price Waterhouse. Mr Hyman provided strategic advice for the privatisation of British Steel. Mr Hyman joined the board as a director on 31 May 2000 and resigned on 14 March 2001.

Mr Anthony Nicolas Scott Saxton

Mr Saxton is the founder and the Chairman of Saxton Bampfylde Hever plc, a leading London based international executive search firm. He is also the Chairman of the Hever Group, which is an effective grouping of 16 independent executive search firms around the world. Mr Saxton joined the board as a non-executive director on 17 March 2000 and resigned on 14 March 2001.

Mr David S Karpin

Mr Karpin is the executive chairman of Karpin Slaughter and worked for 22 years with Conzinc Rio Tinto Australia, where he held various positions including Marketing Director for Hamersley Iron, Managing Director for Argyle Diamonds and Group Executive – Economic Resources. Mr Karpin is Chairman of Monash Mount Eliza Business School Limited and Melbourne Health and is director of Bougainville Copper Limited and Placer Dome Inc. Mr Karpin joined the board as a non-executive director on 8 November 2000 and resigned on 14 March 2001.

CORPORATE GOVERNANCE

The effect of the appointment of Voluntary Administrators on 27 November 2001 on the position of Directors was to suspend their powers in respect of dealing with the affairs of the company.

Directors are no longer able to perform or exercise any power as an officer of the company except to the extent that any authority is specifically delegated in writing by the Administrator. If a Director does exercise any power without the Administrator's authority, the transaction will be void and the Director may be made personally liable for the transaction. The Administrator has specifically delegated in writing the authority to sign this report.

PRINCIPAL ACTIVITIES

The principal activity during the year of entities within the consolidated entity was the furtherance of the Midwest Iron and Steel Project.

REVIEW OF OPERATIONS

A review of operations for the financial year and the results of those operations is contained within the Company Review.

CONSOLIDATED RESULTS

	S'000
Consolidated entity loss after income tax for the financial year	65,917

DIVIDENDS

No dividends were paid during the year and no recommendation is made as to dividends.

KINGSTREAM STEEL LIMITED (SUBJECT TO DEED OF COMPANY ARRANGEMENT) DIRECTORS' REPORT

SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS

Significant changes in the state of affairs of the consolidated entity during the financial period were as outlined in the Company Review.

In the opinion of the directors, there were no other significant changes in the state of affairs of the consolidated entity that occurred during the financial year under review not otherwise disclosed in this report or in the consolidated accounts.

EVENTS SUBSEQUENT TO BALANCE DATE

Since the end of the financial year under review and the date of this report, there have arisen the following events that are likely, in the opinion of the directors of the Company, to significantly affect the operations of the consolidated entity, in subsequent financial years:

- (a) On 14 March 2002, the creditors of the company passed a resolution to allow the company to enter into a Deed of Company Arrangement ("DOCA"). The DOCA was executed on 3 April 2002 and contained a provision for the Administrators to seek proposals in relation to the company and, if desired, for the company or the Administrators to enter into a Trust Deed.
- (b) In April 2002, the Company entered into an agreement with Mount Gibson Mining Ltd ("MGM"), a subsidiary of Mount Gibson Iron Ltd ("MGI"), for the sale of its Mining Leases, an Exploration Lease, General Purpose Leases and Miscellaneous Licences covering the Tallering Peak Iron Ore Body. That Sale Agreement had to be amended to incorporate a right to mine in order to resolve a legal issue. That amendment provided for the ownership of the Leases/Licences to remain with the company and all responsibilities and entitlements to mine Tallering Peak to be transferred to MGM. The Leases/Licences will be transferred to MGM under the Mining Rights & Sale Agreement once the legal impediment has been resolved.
- (c) Following discussions between the Company and representatives from the State Government of Western Australia a mutual agreement was reached to terminate the *Iron and Steel (Mid West) Agreement Act 1997* ("State Agreement"). Termination of the State Agreement facilitated the settlement of the Mining Rights and Sale Agreement for Tallering Peak.
- (d) Settlement of the Mining Rights & Sale Agreement took place on 1 August 2002. Total consideration of \$4.53M is payable consisting of \$1.405M in cash, \$1M of MGI shares held in escrow for 9 months and a \$2.125M Converting Note with a Put and Call Option attaching thereto. The terms of the agreement were approved by the Company's Committee of Creditors on 1 August 2002.
- (e) The Administrators have realised most of the company's property, plant and equipment through private sale, public tenders and public auctions. Proceeds from the sale of several properties were paid to the secured creditor, Tippen Pty Ltd, to partially reduce its outstanding debt.
- (f) The Administrators, with the approval of the Committee of Creditors, have finalised a reconstruction proposal with Koolanooka Pellets Pty Ltd ("KPPL"). The KPPL reconstruction proposal was formalised into a conditional Reconstruction Deed and executed on 1 November 2002. An announcement was subsequently lodged at the Australian Stock Exchange ("ASX").

LIKELY DEVELOPMENTS AND EXPECTED RESULTS

The likely developments in the operation of the consolidated entity and the expected results of those operations in financial years subsequent to the period ended 31 December 2001 are as follows:

- (a) The Reconstruction Deed is intended to facilitate the recapitalisation of the company, revitalise the company, restore its credibility in the market place, and in particular, fast track it towards cash flow generation based on initial development of a lower capital cost iron ore, pellets or DRI/HBI project.
- (b) The Reconstruction Deed contemplates the consolidation of the Company's share capital, a capital raising (being a combination of a rights issue, placements and a public offer), payment of cash and the issue of debt capitalisation shares for the benefit of creditors under the DOCA and Trust Deed, the issue of shares to KPPL, the lifting of the company's ASX trading suspension and the termination of the DOCA and coming into effect of a Trust Deed for the benefit of creditors.
- (c) A meeting of shareholders will be convened on or before 31 January 2003 to ratify the relevant actions contemplated in the Reconstruction Deed.

**KINGSTREAM STEEL LIMITED (SUBJECT TO DEED OF COMPANY ARRANGEMENT)
DIRECTORS' REPORT**

MEETINGS OF DIRECTORS

The numbers of meetings of directors (including meetings of committees of directors) held during the year and the number of meetings attended by each director were as follows:

	Board of Directors		Audit Committee	
	Held	Attended	Held	Attended
N. Lawson	7	5		
N. Zuks	25	25		
K.W. Court	25	24	1	1
H.J. Hyman	7	7		
A.N.S. Saxton	7	7		
D.S. Karpin	7	7		
R. Sirr	25	21		
J.K. Taylor	16	12	1	1

DIRECTORS' AND OTHER OFFICERS' EMOLUMENTS

The Remuneration Committee of the Board of Directors is responsible for determining and reviewing compensation arrangements for the directors and the executive team. The Remuneration Committee assesses the appropriateness of the nature and amount of emoluments of such officers by reference to relevant employment market conditions with the overall objective of ensuring maximum stakeholder benefit from the retention of a high quality Board and executive team. Such officers are given the opportunity to receive their base emolument in a variety of forms including cash and fringe benefits such as motor vehicles and expense payment plans. It is intended that the manner of payment chosen will be optimal for the recipient without creating undue cost for the company.

To assist in achieving these objectives, the Remuneration Committee links the nature and amount of executive directors' and officers' emoluments to the company's progression in relation to the various components constituting the Midwest Iron & Steel Project.

Details of the nature and amount of each element of the emolument of each director of the company and each of the five executive officers of the company and the consolidated entity receiving the highest emolument for the financial year are as follows:

Emoluments of directors of Kingstream Steel Limited

	Annual Emoluments		Long Term Emoluments	
	Base Fee	Other	Superannuation	Other
N. Lawson	\$ 23,097	-	-	-
N. Zuks	212,581	12,712	8,610	-
K.W. Court	61,458	-	-	-
H.J. Hyman	13,858	-	-	-
A N S Saxton	13,858	-	-	-
D.S. Karpin	12,500	-	-	-
R. Sirr	40,625	-	-	-
J.K. Taylor	23,437	-	-	-

The category 'Other' includes the value of any non-cash benefits provided.

Emoluments of the five most highly paid executive officers of the company and the consolidated entity

N. Zuks	\$233,903
---------	-----------

The parent entity has no executives, other than the directors, relying on external consultants.

The terms 'director' and 'officer' have been treated as mutually exclusive for the purposes of this disclosure.

The elements of emoluments have been determined on the basis of the cost to the company and the consolidated entity.

Executives are those directly accountable and responsible for the operational management and strategic direction of the company and the consolidated entity.

SHARE OPTIONS

At the date of this report there were no unissued ordinary shares for which options were outstanding. All options outstanding at year end expired on 30 July 2002.

**KINGSTREAM STEEL LIMITED (SUBJECT TO DEED OF COMPANY ARRANGEMENT)
DIRECTORS' REPORT**

ENVIRONMENTAL REGULATION AND PERFORMANCE

The Company is not currently subject to any specific environmental regulation. There have not been any known significant breaches of any environmental regulations during the year under review and up until the date of this report.

INDEMNIFICATION AND INSURANCE OF DIRECTORS AND OFFICERS

During the financial year the Company entered into agreements to indemnify all directors of the Company and current executive officers of the Company and its controlled entities against all liabilities to persons (other than the Company or a related body corporate) which arise out of the performance of their normal duties as directors or executive officers unless the liability relates to conduct involving a lack of good faith.

During the financial year the Company or its controlled entities paid insurance premiums totaling \$95,040 in respect of directors' and officers' liability insurance. The policies do not specify the premium for individual directors and executive officers.

The directors' and officers' liability insurance provides cover against all costs and expenses involved in defending legal actions and any resulting payments arising from a liability to persons (other than the Company or a related body corporate) incurred in their position as director or executive officer unless the conduct involves a willful breach of duty or an improper use of inside information or position to gain advantage.

ROUNDING OF AMOUNTS

The amounts contained in this report and in the financial statements have been rounded off under the option available to the company under ASIC Class Order 98/100. The company is an entity to which the Class Order applies.

CORPORATE

The company is limited by shares and is domiciled in Australia. At year end the company had 2 employees.

Signed in accordance with a resolution of directors.



Nikolaïs Zuks
Director
Perth, 17 February 2003

**KINGSTREAM STEEL LIMITED (SUBJECT TO DEED OF COMPANY ARRANGEMENT)
INTERESTS IN MINING TENEMENTS AS AT 31 DECEMBER 2001**

Tallering Peak, Western Australia - 100%

	Area	Status
EL 70/1192	66 Blocks	Granted
ML 70/896	903Ha	Granted
ML 70/1062	392Ha	Granted
ML 70/1063	938Ha	Granted
ML 70/1064	905Ha	Granted
GPL 70/192	32Ha	Granted
GPL 70/193	149Ha	Granted
L 70/60	740Ha	Granted
	19,800Ha	

Weld Range, Western Australia - 100%

	Area	Status
TR 70/3902	2310Ha	Granted
EL 20/176	7 Blocks	Granted
ML 20/402	960Ha	Granted
ML 20/403	991Ha	Granted
ML 20/419	507Ha	Application
EL 51/907	33 Blocks	Application
EL 20/459	2 Blocks	Application
EL 20/457	7 Blocks	Application
EL 20/492	8 blocks	Application
	19,917Ha	

Koolanooka Hills, Western Australia - 100%

	Area	Status
ML 70/1012	598Ha	Granted
ML 70/1013	899Ha	Granted
ML 70/1014	899Ha	Granted
EL 70/2433	33 Blocks	Application
	12,296Ha	

Jack Hills, Western Australia - 100%

	Area	Status
EL 20/209	8 Blocks	Granted
EL 20/458	68 Blocks	Application
EL 51/906	40 Blocks	Application
	34,800Ha	

Blue Hill Range, Western Australia - 100%

	Area	Status
EL 59/462	2 Blocks	Granted
EL 59/902	2 Blocks	Granted
EL 59/971	8 Blocks	Application
EL 59/1059	34 Blocks	Application
	13,800Ha	

Robinson Range, Western Australia - 100%

	Area	Status
EL 52/1552	59 Blocks	Application
EL 52/1553	70 Blocks	Application
EL 52/1554	70 Blocks	Application
EL 52/1555	54 Blocks	Application
EL 52/1556	44 Blocks	Application
	89,100Ha	

Mt Aubrey, Western Australia - 100%

	Area	Status
EL 09/1004	47 Blocks	Application
EL 70/2237	53 Blocks	Application
	30,000Ha	

ML = Mining Lease
EL = Exploration Lease
TR = Temporary Reserve
GPL = General Purpose Lease
L = Miscellaneous Licence

Montalban Gravel/Gold Project, Philippines

The agreement with Scott Consultants & Resource Development Inc. has lapsed. Kingstream Resources (Singapore) Pte Ltd and Kingstream Resources Philippines Inc no longer hold beneficial interests in the project. The investment into the project has previously been provided for in full. Kingstream Resources (Singapore) Pte Ltd is being wound up.

Agno River Alluvial Gold Prospect, Philippines

The agreement with Scott Consultants & Resource Development Inc. has lapsed. Kingstream Resources (Singapore) Pte Ltd and Kingstream Resources Philippines Inc no longer hold interests in the prospect. The investment into the prospect has previously been provided for in full.

KINGSTREAM STEEL LIMITED (SUBJECT TO DEED OF COMPANY ARRANGEMENT)
STATEMENT OF FINANCIAL PERFORMANCE
FOR THE YEAR ENDED 31 DECEMBER 2001

	Notes	Consolidated		Kingstream Steel Limited	
		2001 \$'000	2000 \$'000	2001 \$'000	2000 \$'000
Revenue from Ordinary Activities	2	34	127	34	127
Exploration, evaluation and development costs written off		(60,988)	(270)	(52,257)	(270)
Provision for writedown of property, plant and equipment		(653)	-	(620)	-
Consultants		(1,652)	(3,852)	(1,652)	(3,852)
Borrowing costs		(220)	-	(220)	-
Salaries and employee benefits expenses		(686)	(757)	(686)	(757)
Other expenses		(1,752)	(3,443)	(1,745)	(3,428)
Loss from ordinary activities before income tax	3(i)	(65,917)	(8,195)	(57,146)	(8,180)
Income tax expense relating to ordinary activities	4	-	-	-	-
Net loss attributable to members of Kingstream Steel Limited		(65,917)	(8,195)	(57,146)	(8,180)
Basic loss per share (cents per share)		(13.4)	(1.8)		
Diluted loss per share (cents per share)		(13.4)	(1.8)		

KINGSTREAM STEEL LIMITED (SUBJECT TO DEED OF COMPANY ARRANGEMENT)
STATEMENT OF FINANCIAL POSITION
AT 31 DECEMBER 2001

		Consolidated		Kingstream Steel Limited	
		2001	2000	2001	2000
		\$'000	\$'000	\$'000	\$'000
	Notes				
CURRENT ASSETS					
Cash	5	43	259	43	259
Inventories	6	58	58	58	58
Other	7	10	254	10	254
TOTAL CURRENT ASSETS		111	571	111	571
NON-CURRENT ASSETS					
Property, plant and equipment	8	604	1,298	591	1,241
Receivables	9	-	51	-	51
Investments	10	-	-	-	4
Exploration, evaluation and development costs carried forward	11	27,000	86,667	27,000	77,936
TOTAL NON-CURRENT ASSETS		27,604	88,016	27,591	79,232
TOTAL ASSETS		27,715	88,587	27,702	79,803
CURRENT LIABILITIES					
Accounts payable	12	7,716	3,806	7,706	3,796
Provisions	13	-	47	-	47
TOTAL CURRENT LIABILITIES		7,716	3,853	7,706	3,843
TOTAL LIABILITIES		7,716	3,853	7,706	3,843
NET ASSETS		19,999	84,734	19,996	75,960
EQUITY					
Contributed equity	14	759,233	758,051	759,233	758,051
Reserves	15	33,811	33,811	33,811	33,811
Accumulated losses		(773,045)	(707,128)	(773,048)	(715,902)
TOTAL EQUITY		19,999	84,734	19,996	75,960

KINGSTREAM STEEL LIMITED (SUBJECT TO DEED OF COMPANY ARRANGEMENT)
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2001

	Notes	Consolidated		Kingstream Steel Limited	
		2001 \$'000	2000 \$'000	2001 \$'000	2000 \$'000
		Inflows/ (Outflows)	Inflows/ (Outflows)	Inflows/ (Outflows)	Inflows/ (Outflows)
CASH FLOWS FROM OPERATING ACTIVITIES					
Receipts from customers		15	76	15	76
Payments to suppliers and employees		(1,040)	(4,476)	(1,040)	(4,475)
Interest received		5	51	5	51
Borrowing costs		(292)	(19)	(292)	(19)
Exploration and evaluation expenditure		(213)	-	(213)	-
GST refund		575	-	575	-
Net cash flows used in operating activities	26 (b)	(950)	(4,368)	(950)	(4,367)
CASH FLOWS FROM INVESTING ACTIVITIES					
Payments for property, plant and equipment		(1)	(412)	(1)	(412)
Proceeds from sale of property plant and equipment		14	-	14	-
Exploration and evaluation expenditure		-	(5,695)	-	(5,695)
Net cash flows used in investing activities		13	(6,107)	13	(6,107)
CASH FLOWS FROM FINANCING ACTIVITIES					
Proceeds from issue of shares		-	9,000	-	9,000
Share issue costs		-	(80)	-	(80)
Proceeds from borrowings		721	-	721	-
Net cash flows from financing activities		721	8,920	721	8,920
Net decrease in cash held		(216)	(1,555)	(216)	(1,554)
Cash at beginning of the financial period		259	1,814	259	1,813
Cash at the end of the financial period	26 (a)	43	259	43	259

**KINGSTREAM STEEL LIMITED (SUBJECT TO DEED OF COMPANY ARRANGEMENT)
NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
31 DECEMBER 2001**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of accounting

The financial statements have been prepared in accordance with the historical cost convention. All assets are valued at the lower of cost and net realisable value.

The financial report is a general purpose financial report which has been prepared in accordance with the requirements of the Corporations Act 2001 which includes applicable Accounting Standards. Other mandatory professional reporting requirements (Urgent Issues Group Consensus Views) have also been complied with.

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

1 (a) Basis of Presentation of Financial Statements

The financial statements have not been prepared on a going concern basis. Due to the proposed restructure of the Group the assets have been valued at net realisable value. The Company and the consolidated entity incurred a loss of \$57.146 million and \$65.917 million respectively for the financial year ended 31 December 2001 and subsequent to balance date, have continued to generate a loss. At 31 December 2001, both the Company and the consolidated entity were also in a net current asset deficiency.

On 27 November 2001, the Company and all subsidiaries were placed into Voluntary Administration.

A proposal to enter the Kingstream Steel Group (comprising Kingstream Steel Limited and its controlled entities) into a Deed of Company Arrangement was approved at a meeting of creditors on 14 March 2002. On 3 April 2002 the Deed of Company Arrangement was executed and Kingstream Steel Limited and its controlled entities previously subject to voluntary administration became subject to a Deed of Company Arrangement.

The Committee of Creditors approved the restructuring plan for the Kingstream Steel Group and a conditional Reconstruction Deed was executed on 1 November 2002, details of which are included in Note 27 (f).

Kingstream Steel Limited is no longer considered a going concern and therefore, on this basis, the operating assets have been recognised in the financial report at estimated net realisable value. Liabilities have been recognised in the financial report at full value.

Principles of consolidation

The consolidated accounts are those of the consolidated entity, comprising Kingstream Steel Limited (the parent entity) and all entities which Kingstream Steel Limited controlled from time to time during the year and at balance date.

Information from the financial statements of subsidiaries is included from the date the parent company obtains control until such time as control ceases. Where there is a loss of control of a subsidiary, the consolidated financial statements include the results for the part of the reporting period during which the parent company has control.

Subsidiary acquisitions are accounted for using the purchase method of accounting.

The financial statements of subsidiaries are prepared for the same reporting period as the parent entity, using consistent accounting policies. Adjustments are made to bring into line dissimilar accounting policies which may exist.

All inter-company balances and transactions have been eliminated in full on consolidation.

Investments

Investments in controlled entities are valued in the chief entity's accounts at cost less amounts written off for permanent diminution in the value of investments.

All other non-current investments are carried at the lower of cost and recoverable amount.

Inventories

Costs incurred in bringing each product to its present condition and location are accounted for using purchase cost on a first in first out basis.

Mining Tenements and Exploration Expenditure/Midwest Iron & Steel Project ("Project")

Costs incurred during exploration, evaluation, development and construction activities related to an area of interest or the Project are accumulated at cost and, where applicable, written down to their recoverable amount.

The ultimate recoupment of this balance is dependent on the successful and commercial exploitation and/or sale of the relevant assets, at amounts at least equal to book value. The carrying amount of these assets is reviewed annually by the directors to ensure it is not in excess of their recoverable amount. The recoverable amount is assessed on the basis of the expected net cashflows

**KINGSTREAM STEEL LIMITED (SUBJECT TO DEED OF COMPANY ARRANGEMENT)
NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
31 DECEMBER 2001**

which will be received from the exploitation of the assets and subsequent disposal. In determining recoverable amount the expected net cashflows have been discounted to their present values using a market determined risk adjustment discount rate.

Accumulated costs in relation to abandoned areas of interest are written off in full in the year in which the decision to abandon the area is made.

Revaluations of these assets have not taken account of potential capital gains tax on assets acquired after the introduction of capital gains tax.

The consolidated entity has no set policy for revaluation.

Property, plant and equipment

Cost

Items of property plant and equipment are valued at cost.

Property, plant and equipment, other than freehold land, are depreciated over their estimated useful lives from the time they are fully installed and operating using the straight line method. Plant and equipment is being depreciated over periods ranging between 3 to 6 years (1999 – 3 to 6 years).

Recoverable amount

Non-current assets are not carried at an amount above their recoverable amount, and where carrying values exceed this recoverable amount assets are written down. In determining recoverable amount the expected net cash flows have been discounted to their present value using a market determined risk adjustment discount rate.

Cash and cash equivalents

Cash on hand and in banks and short term deposits are stated at the lower of cost and net realisable value.

For the purposes of the statement of cash flows, cash includes cash on hand and in banks, and money market investments readily convertible to cash within 2 working days, net of outstanding bank overdrafts.

Trade and other payables

Liabilities for trade creditors and other amounts are carried at cost which is the fair value of the consideration to be paid in the future for goods and services received, whether or not billed to the consolidated entity.

Payables to related parties are carried at the principal amount. Interest, when charged, by the lender, is recognised as an expense on an accrual basis.

Share capital

Ordinary share capital is recognised at the fair value of the consideration received by the company.

Any costs arising on the issue of ordinary shares are recognised directly in equity as a reduction in the proceeds received.

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.

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 on a straight line basis.

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

Revenue recognition

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

Sale of Goods

Control of the goods has passed to the buyer.

**KINGSTREAM STEEL LIMITED (SUBJECT TO DEED OF COMPANY ARRANGEMENT)
NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
31 DECEMBER 2001**

Interest

Control of a right to receive consideration for the provision of, or investment in, assets has been attained.

Dividends

Control of a right to receive consideration for the investment in assets is attained, usually evidenced by approval of the dividend at a meeting of shareholders.

Income tax

Tax-effect accounting is applied using the liability method whereby income tax is regarded as an expense and is calculated on the accounting profit after allowing for permanent differences. To the extent timing differences occur between the time items are recognised in the financial statements and when items are taken into account in determining taxable income, the net related taxation benefit or liability, calculated at current rates, is disclosed as a future income tax benefit or a provision for deferred income tax. The net future income tax benefit relating to tax losses and timing differences is not carried forward as an asset unless the benefit is virtually certain of being realised.

Where assets are revalued no provision for potential capital gains tax has been made.

Goods and Services Tax (GST)

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 Statement of Financial Position.

Cash flows are included in the Statement of Cash Flows 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 the amount of GST recoverable from, or payable to, the taxation authority.

Employee entitlements

Provision is made for employee entitlement benefits accumulated as a result of employees rendering services up to the reporting date. These benefits include wages and salaries, annual leave, sick leave and long service leave.

Liabilities arising in respect to wages and salaries, annual leave, sick leave and any other employee entitlements expected to be settled within twelve months of the reporting date are measured at their nominal amounts. All other employee entitlement liabilities are measured at the present value of the estimated future cash outflow to be made in respect of services provided by employees up to the reporting date. In determining the present value of future cash outflows, the interest rates attaching to government guaranteed securities which have terms to maturity approximating the terms of the related liability are used.

Employee entitlement expenses and revenues arise in respect of the following categories:

- Wages and salaries, non-monetary benefits, annual leave, long service leave, sick leave and other leave entitlements; and
- Other types of employee entitlements,

are charged against profits on a net basis in their respective categories.

Earnings per share

Basic earnings per share is determined by dividing the operating profit/(loss) after tax by the weighted average number of ordinary shares outstanding during the financial year.

Diluted earnings per share is determined by dividing the operating profit after tax adjusted for the effect of earnings on potential ordinary shares, by the weighted average number of ordinary shares (both issued and potentially dilutive) outstanding during the financial year.

Foreign currency translations

Transactions in foreign currencies of entities within the consolidated entity are converted to local currency at the rate of exchange ruling at the date of the transaction.

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Amounts payable to and by the entities within the consolidated entity that are outstanding at the balance date and are denominated in foreign currencies have been converted to local currency using rates of exchange ruling at the end of the financial year.

Except for certain specific hedges and hedges of foreign currency operations, all resulting exchange differences arising on settlement are brought to account in determining the profit and loss for the year, and transaction costs, premiums and discounts on forward currency contracts are deferred and amortised over the life of the contract.

Comparative figures

Where necessary, comparative figures have been reclassified to conform with the current period financial statement presentation. As a result of applying the revised Accounting Standard AASB1018 Statement of Financial Performance, revised AASB 1034 Financial Report Presentation and Disclosures and AASB 1040 Statement of Financial Position for the first time, a number of comparative amounts were reclassified to ensure comparability with the current reporting period.

	Consolidated		Kingstream Steel Limited	
	2001 \$'000	2000 \$'000	2001 \$'000	2000 \$'000
2. REVENUE FROM ORDINARY ACTIVITIES				
Revenues from operating activities				
Revenue from sale of goods	15	76	15	76
Revenues from non operating activities				
Interest received - other corporations	5	51	5	51
Proceeds on sale of non-current assets	14	-	14	-
Total revenues from ordinary activities	34	127	34	127

3. EXPENSES AND LOSSES

(a) Expenses

Interest paid – other corporations	72	19	72	19
Depreciation of non-current assets				
Plant & equipment	65	80	54	66
Rental - operating leases	598	449	598	449
Provision for employee entitlements	12	22	12	22
Asset write-downs	48	-	52	-

(b) Significant Items

Profit from ordinary activities before income tax expense includes the following revenues and expenses where the disclosure is relevant in explaining the financial performance of the entity:

Provision for diminution in value of				
- property, plant & equipment	653	-	620	-
Applicable income tax	-	-	-	-
- exploration, evaluation and development costs	60,988	-	52,257	-
Applicable income tax	-	-	-	-

Following the restructure of the Group subsequent to year end and in consideration of the lack of progress in developing the Midwest Iron and Steel Project the carrying value of assets has been reassessed. This has resulted in significant writedowns in the carrying value of assets as noted above.

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	Consolidated		Kingstream Steel Limited	
	2001 \$'000	2000 \$'000	2001 \$'000	2000 \$'000
4. INCOME TAX				
The prima facie tax, using tax rates applicable in the country of operation, on operating (loss) profit differs from the income tax provided in the accounts as follows:				
Prima facie tax on operating (loss) profit	(1,260)	(2,786)	(1,257)	(2,781)
Add (Less) tax effect of:				
- Future income tax benefits not brought to account at balance date as realisation of the benefit is not regarded as virtually certain	1,260	2,786	1,257	2,781
Income tax expense (benefit) attributable to operating profit (loss)	-	-	-	-

Tax deductible exploration expenditure carried forward together with operating losses resulted in future income tax benefits of \$(13,402,000) at 31 December 2001 (2000: \$12,142,000) for the consolidated entity. The consolidated entity also has carried forward capital losses resulting in an additional future income tax benefit of \$(210,778,000). These benefits have not been brought to account and will only be available if:

- The companies in the consolidated entity derive future assessable income of a nature and of an amount sufficient to enable the benefit from the deduction for the losses to be realised;
- The companies in the consolidated entity comply with the conditions for deductibility imposed by the law; and
- No changes in tax legislation adversely affect the companies in the consolidated entity in realising the benefit from the deduction for the losses.

5. CASH

Cash at bank	43	177	43	177
Short term deposits	-	82	-	82
	43	259	43	259

6. INVENTORIES

Other at cost	58	58	58	58
	58	58	58	58

7. OTHER CURRENT ASSETS

Other	58	254	58	254
Less provision for diminution	(48)	-	(48)	-
	10	254	10	254

**KINGSTREAM STEEL LIMITED (SUBJECT TO DEED OF COMPANY ARRANGEMENT)
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	Consolidated		Kingstream Steel Limited	
	2001 \$'000	2000 \$'000	2001 \$'000	2000 \$'000
8. PROPERTY, PLANT AND EQUIPMENT				
Leasehold land at cost	173	173	173	173
Freehold land at cost	850	850	850	850
Provision for Diminution	(473)	-	(473)	-
Total land	550	1,023	550	1,023
Plant and equipment at cost	613	630	500	517
Provision for depreciation	(416)	(355)	(349)	(299)
Provision for diminution	(143)	-	(110)	-
Total plant and equipment	54	275	41	218
Total property, plant and equipment				
Cost	1,652	1,653	1,539	1,540
Provision for depreciation/amortisation	(420)	(355)	(353)	(299)
Provision for diminution	(628)	-	(595)	-
Total written down amount	604	1,298	591	1,241

(a) Reconciliations

Reconciliations of the carrying amounts of property, plant and equipment at the beginning and end of the current and previous financial year.

Land

Carrying amount at beginning	1,023	687	1,023	687
Additions	-	336	-	336
Provision for diminution	(473)	-	(473)	-
	550	1,023	550	1,023

Plant and equipment

Carrying amount at beginning	275	279	218	208
Additions	1	76	1	76
Disposals	(14)	-	(14)	-
Depreciation	(65)	(80)	(54)	(66)
Provision for diminution	(143)	-	(110)	-
	54	275	41	218

9. RECEIVABLES

Non-Current

Amount receivable from controlled entities	-	-	1,257	1,257
Less: Provision for non recovery	-	-	(1,257)	(1,257)
	-	-	-	-
Other deposits	38	51	38	51
Less: Provision for non recovery	(38)	-	(38)	-
	-	51	-	51

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	Consolidated		Kingstream Steel Limited	
	2001 \$'000	2000 \$'000	2001 \$'000	2000 \$'000
10. INVESTMENTS				
Non-Current				
Shares in unlisted entities at cost (a)	177,846	177,846	177,846	177,846
Provision for diminution	(177,846)	(177,846)	(177,846)	(177,846)
	-	-	-	-
Shares in unlisted controlled entities at cost (refer note 23)	-	-	4	4
Less: Provision for diminution	-	-	(4)	-
	-	-	-	4

(a) Shares in unlisted entities is comprised of the company's 22.2% interest in An Feng Steel Co., Ltd. This investment has not been equity accounted as the consolidated entity has no significant influence over the company.

**11. EXPLORATION, EVALUATION
AND DEVELOPMENT COSTS
CARRIED FORWARD**

Mining tenements and exploration				
- At cost	28,257	1,257	27,000	-
Less: Provision for diminution in value	(1,257)	(1,257)	-	-
	27,000	-	27,000	-
Midwest Iron & Steel Project ^(a)				
- At recoverable amount ^(b)	-	52,700	-	52,700
- At cost ^(c)	-	33,967	-	25,236
	-	86,667	-	77,936
	27,000	86,667	27,000	77,936

(a) The ultimate recoupment of the carrying value of the Midwest Iron & Steel Project was dependent upon the successful and commercial exploitation which would be possible only if sufficient funds were made available from shareholders or other sources and/or sale of the relevant areas, at amounts at least equal to book value. Following appointment of a Voluntary Administrator, the carrying value has been written off in full.

(b) The directors' valuation in 1996 assessed the after tax net present value of the measured and indicated high grade iron resource of 28.2Mt at 63.2% Fe at Tallering Peak. The valuation was based upon various costs which have been ascertained in the course of the bankable feasibility study into the Midwest Iron & Steel Project and is calculated on the basis of iron being sold in an unprocessed form as lump and fines on the international market at the average published sale price of iron ore for the previous five years (based upon information received from the Australian Bureau of Statistics). Subsequent to 1996, the Tallering Peak iron resource was upgraded to 39.2Mt.

(c) Represents costs incurred by the company subsequent to the directors' valuation in 1996 in further enhancing the value of the Midwest Iron & Steel Project.

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	Consolidated		Kingstream Steel Limited	
	2001 \$'000	2000 \$'000	2001 \$'000	2000 \$'000
12. ACCOUNTS PAYABLE				
Current				
Other creditors				
Other corporations	6,797	3,221	6,787	3,211
Director related entities	919	585	919	585
	<u>7,716</u>	<u>3,806</u>	<u>7,706</u>	<u>3,796</u>
Australian dollar equivalents of amounts payable in foreign currencies not effectively hedged:				
United Kingdom pounds	1,203	1,248	1,203	1,248
United States dollars	622	449	622	449

Terms and conditions relating to the above financial instruments are as set out in note 27 (a)(ii).

13. PROVISIONS

Current				
Provision for employee entitlements	22	-	47	-
				47

14. SHARE CAPITAL

(a) Issued and paid up capital				
500,200,655 ordinary shares fully paid (2000: 484,916,005)				
		759,233	758,051	759,233
				758,051

(b) The following shares were issued during the year:

- On 15 June 2001 2,000,000 ordinary shares were issued in lieu of contracted services at an issue price of 16 cents each.
- On 21 June 2001 1,753,165 ordinary shares were issued in lieu of contracted services at an issue price of 5 cents each.
- On 18 July 2001 4,218,696 ordinary shares were issued in lieu of contracted services at an issue price of 10 cents each.
- On 5 September 2001 3,912,789 ordinary shares were issued in lieu of contracted services at an issue price of 6.33 cents each.
- On 13 November 2001 3,400,000 ordinary shares were issued in lieu of contracted services at an issue price of 3 cents each.

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	Consolidated		Kingstream Steel Limited	
	2001 \$'000	2000 \$'000	2001 \$'000	2000 \$'000
(c) Options over ordinary shares:			2001 No.'000	2000 No.'000
• listed options to acquire fully paid ordinary shares on or before 30 July 2002 at an exercise price of \$1.10			45,261	45,261

15. RESERVES

Asset revaluation	33,811	33,811	33,811	33,811
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(a) Asset revaluation

(i) Nature and purpose of reserve

The asset revaluation reserve is used to record increments and decrements in the value of non-current assets. The reserve can only be used to pay dividends in limited circumstances.

(ii) Movements in reserve

Balance at beginning of year	33,811	33,811	33,811	33,811
	33,811	33,811	33,811	33,811

16. EARNINGS PER SHARE

	2001	2000
Basic loss/earnings per share (cents per share)	(13.4)	(1.8)

The following reflects the income and share data used in calculating basic and diluted earnings per share:

(a) Net loss	\$65,917,000	\$8,195,000
(b) Weighted average number of ordinary shares outstanding during the period	No. 490,568,919	No. 459,865,855
(c) Options issued at year end are not considered to be dilutive.		

**KINGSTREAM STEEL LIMITED (SUBJECT TO DEED OF COMPANY ARRANGEMENT)
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	Consolidated		Kingstream Steel Limited	
	2001	2000	2001	2000
	\$'000	\$'000	\$'000	\$'000

17. COMMITMENTS

(a) Exploration Commitments

The consolidated entity has certain obligations to perform minimum exploration work and to expend minimum amounts of money on such work on mining tenements. These obligations may be varied from time to time subject to approval and are expected to be fulfilled in the normal course of the operations of the consolidated entity. These commitments have not been provided for in the accounts. The minimum expenditure commitment on the tenements is:

Not later than one year	410	410	410	410
Later than one year but not later than two years	410	410	410	410
	820	820	820	820

(b) Operating leases on offices (non-cancellable)

Minimum lease payments				
Not later than one year	-	194	-	194
Later than one year but not later than five years	-	232	-	232
	-	426	-	426

The operating lease for the company's offices terminated upon the company proceeding into Voluntary Administration.

18. CONTINGENT LIABILITIES

The details and estimated maximum amounts of contingent liabilities are set out below. The Directors are not aware of any circumstances or information that would lead them to believe that these liabilities will crystallise and consequently no provision is included in the accounts in respect of these matters.

An action has been brought in the Supreme Court of Western Australia by Stemcor UK Ltd ("Stemcor") against the company in relation to guarantees for the sum of US\$2 million plus interest purportedly given by the company in favour of Stemcor in respect of the supply of steel by Stemcor to the company's previously controlled entity, An Feng Steel Co., Ltd, pursuant to a toll treatment contract and which guarantees were allegedly signed by a former Taiwanese director of the company. The company denies any such guarantee and claims that Stemcor's claim is without merit. As a result of the company proceeding into Voluntary Administration the action has been stayed in accordance with the Corporations Act 2001.

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	Consolidated		Kingstream Steel Limited	
	2001	2000	2001	2000
	\$	\$	\$	\$
19. REMUNERATION OF DIRECTORS				
Directors' remuneration				
Income paid or payable, or otherwise made available, in respect of the financial year, to all directors of each entity in the consolidated entity, directly or indirectly, by the entities of which they are directors or any related party:				
	<u>422,736</u>	<u>578,694</u>		
Income paid or payable, or otherwise made available, in respect of the financial year, to all directors of Kingstream Steel Limited, directly or indirectly, from the entity or any related party:				
			<u>422,736</u>	<u>578,694</u>
The number of directors of Kingstream Steel Limited whose income (including superannuation contributions) falls within the following bands is:				
	2001	2000		
	No.	No.		
\$ 10,000 - \$19,999	3	2		
\$ 20,000 - \$29,999	2	-		
\$ 40,000 - \$49,999	1	2		
\$ 60,000 - \$69,999	1	1		
\$ 70,000 - \$ 79,999	-	1		
\$100,000 - \$109,999	-	1		
\$220,000 - \$229,999	1	1		
In the opinion of directors, remuneration paid to directors is considered reasonable				
20. REMUNERATION OF EXECUTIVES				
Remuneration received or due and receivable by executive officers of the consolidated entity whose remuneration is \$100,000 or more, from entities in the consolidated entity or a related party, in connection with the management of the affairs of the entities in the consolidated entity whether as an executive officer or otherwise:				
	<u>233,903</u>	<u>320,420</u>		
Remuneration received or due and receivable by executive officers of the company whose remuneration is \$100,000 or more, from the company or any related party, in connection with the management of the affairs of the company or any related party, whether as an executive officer or otherwise.				
			<u>233,903</u>	<u>320,420</u>

**KINGSTREAM STEEL LIMITED (SUBJECT TO DEED OF COMPANY ARRANGEMENT)
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	Consolidated		Kingstream Steel Limited	
	2001	2000	2001	2000
The number of executives of the consolidated entity and the company whose remuneration falls within the following bands:				
	No.	No.	No.	No.
\$100,000 - \$109,999	-	1	-	1
\$220,000 - \$229,999	1	1	1	1

In the opinion of directors, remuneration paid to executives is considered reasonable.

21. AUDITORS' REMUNERATION

Amounts, received or due and receivable by auditors for:

- an audit or review of the financial report of the entity and any other entity in the consolidated entity	37,600	35,366	37,600	35,366
- other services in relation to the entity and any other entity in the consolidated entity	26,776	14,240	26,776	14,240
	64,376	49,606	64,376	49,606

22. EMPLOYEE ENTITLEMENTS

(a) Employee entitlements

Provisions (Current)	-	47	-	47
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Employees were terminated following the appointment of Voluntary Administrators and became unsecured creditors for their entitlements amounting to \$59,000.

(b) Superannuation

Superannuation plans are contributed to at various percentages of the employee's income but not less than that required under statutory regulations for the provision of benefits to employees on retirement, death or disablement. Employees may contribute amounts either as fixed dollar amounts or as a percentage of income.

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23. CONTROLLED ENTITIES

(a) Controlled entities	Ordinary Shares Percentage Owned		Investment at cost	
	2001 %	2000 %	2001 \$'000	2000 \$'000
Kingstream Pty Ltd	100	100	-	-
Kingstream Resources (Singapore) Pte Ltd and its controlled entity Kingstream Resources Philippines Inc *	100	100	-	-
Hurda Pty Ltd #	100	100	-	-
AFK1 Pty Ltd #	100	100	-	-
AFK2 Pty Ltd #	100	100	-	-
AFK3 Pty Ltd #	100	100	-	-
AFK4 Pty Ltd #	100	100	-	-
AFK5 Pty Ltd #	100	100	-	-
AFK6 Pty Ltd #	100	100	-	-
Provision for diminution in value			-	-
			-	-

* Controlled entities audited by firms other than Ernst & Young.

Controlled entity not audited as it is a small proprietary company not required to prepare financial statements.

(b) All controlled entities are incorporated in Australia, with the exception of the following:

	Country of Incorporation
- Kingstream Resources (Singapore) Pte Ltd	Singapore
- Kingstream Resources Philippines Inc	Philippines

Each entity operates in their country of incorporation.

(c) The provision for diminution in value of investments for the period ended December 2001 was (\$4,084.00) and December 2000 was (\$2.00).

24. RELATED PARTY DISCLOSURES

(a) The directors of Kingstream Steel Limited during the financial year were:

Kenneth Court
Nikolais Zuks
Rudolph Sirr
Nigel Lawson
Howard Hyman
Anthony Saxton
David Karpin
Jesse Taylor

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	Consolidated		Kingstream Steel Limited	
	2001 \$'000	2000 \$'000	2001 \$'000	2000 \$'000
(b) The following related party transactions occurred during the financial year. These transactions were under normal commercial terms and conditions unless otherwise stated.				
(i) Transactions of the parent entity with director related entities:				
• Amounts paid to Equilibrium Risk Advisory Services Pty Ltd a corporation of which Mr Rudolph Sirr is a director and has a beneficial interest				
Consulting Fees	331	50	331	50
At balance date the following amounts were outstanding to Equilibrium Risk Advisory Services Pty Ltd	374	43	374	43
• Amounts paid to Howard Hyman & Associates a corporation of which Mr Howard Hyman is the principal and has a beneficial interest				
Consulting Fees	126	698	126	698
At balance date the following amounts were outstanding to Howard Hyman & Associates	129	323	129	323
(ii) Kingstream Steel Limited is the ultimate controlling entity.				

(c) Share Transactions of Directors
Interests in the shares and options of Kingstream Steel Limited held by directors of the reporting entity and their director-related entities, as at 31 December 2001

	2001 No.	2000 No.
Ordinary fully paid shares	16,796,898	21,456,898
30 July 2002 options (exercisable at \$1.10)	9,704,173	9,704,173

During the period directors and their related entities acquired 400,000 ordinary shares and disposed of 1,10,000 ordinary shares on the same terms and conditions available to other shareholders.

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25. SEGMENT INFORMATION

The consolidated entity operates in Australia, predominantly in one business segment, mineral exploration.

26. STATEMENT OF CASH FLOWS

(a) Reconciliation of cash for the purposes of this statement of cash flows, cash includes:

- (i) cash on hand and in at call deposits with banks or financial institutions, net of bank overdrafts; and
- (ii) investments in money market instruments.

	Consolidated		Kingstream Steel Limited	
	2001 \$'000	2000 \$'000	2001 \$'000	2000 \$'000
Cash at the end of the year is shown in the balance sheet as:				
Cash on hand	43	259	43	259
	43	259	43	259

(b) Reconciliation of the operating profit (loss) after tax to the net cash flow used in operations:

	Notes				
Operating profit/(loss) after income tax		(65,917)	(8,195)	(57,146)	(8,180)
Net cash flows in operating loss:					
Item classified as financing activity	26(d)	323	1,450	323	1,450
Depreciation		65	80	54	66
Provision for diminution in value of investments		-	-	4	-
Provision for diminution of receivables		48	-	48	-
Provision for diminution of property, plant & equipment		653	-	620	-
Changes to other provisions		12	22	12	22
Project expenditure written off		60,988	270	52,257	270
Changes in assets and liabilities:					
Other current assets		(10)	100	(10)	100
Accounts payable		2,845	1,905	2,845	1,905
Net cash flows from/(used in) operating activities		(950)	(4,368)	(950)	(4,367)

(c) Financing Arrangements

The entities in the consolidated entity have no standby arrangements or credit facilities in place.

(d) Non-Cash Financing and Investing Activities

During the financial year:

- (i) the consolidated entity issued 15,284,650 ordinary fully paid shares for services rendered and/or to be rendered in respect of the operating activities and the Midwest Iron & Steel Project. The deemed consideration for the services was \$1,179,208.

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27. FINANCIAL INSTRUMENTS

(a) Terms, conditions and accounting policies

The consolidated entity's accounting policies, including the terms and conditions of each class of financial asset, financial liability and equity instrument, both recognised and unrecognised at the balance date, are as follows:

Recognised Financial Instruments	Notes	Accounting Policies	Terms and Conditions
(i) Financial Asset			
Cash		Cash on hand and in banks and short term deposits are stated at the lower of cost and net realisable value.	Normal terms apply.
Receivables – trade		Trade receivables are carried at nominal amounts due less any provision for doubtful debts. A provision for doubtful debts is recognised when collection of the full nominal amount is no longer payable.	Credit sales are normally on 30 day terms.
Receivables–related parties/entities	24	Amounts receivable from related parties/entities are carried at nominal amounts due.	Normal credit terms applicable. Details are set out in Note 24.
Short term deposits	5	Short term deposits are stated at the lower of cost and net realisable value. Interest is recognised in the profit and loss when earned.	Short term deposits have varying maturity dates and effective interest rates.
(ii) Financial Liabilities			
Trade creditors & accruals	12	Liabilities are recognised for amounts to be paid in the future for goods and services received, whether or not billed to the consolidated entity.	Trade liabilities are normally settled on 30 day terms.
Accounts payable - related parties/entities	12, 24	Amounts owing to related parties are carried at the principal amount.	Normal trade terms apply. Details are set out in note 24.
(iii) Equity			
Ordinary shares	14	Ordinary share capital is recognised at the value of the amount received.	Details of shares issued are set out in note 14.

(b) Interest rate risk exposure

The consolidated entity's exposure to interest rate risks and the effective interest rates of financial assets and financial liabilities, both recognised and unrecognised at the balance date, are as follows:

2001

Financial Instrument	Floating interest rate	Fixed interest rate maturing in:				Total	Weighted average effective interest rate
		1 year or less	Over 1 to 5 years	More than 5 years	Non-interest Bearing		
(i) Financial Asset							
Cash at bank	43	-	-	-	-	43	0%
	43	-	-	-	-	43	
(ii) Financial Liabilities							
Other creditors & accruals	-	-	-	-	6,797	6,797	N/A
Accounts payable - related parties/entities	-	-	-	-	919	919	N/A
Total financial liabilities	-	-	-	-	7,716	7,716	

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2000

Financial Instrument	Floating interest rate	Fixed interest rate maturing in:				Non-interest Bearing	Total	Weighted average effective interest rate
		1 year or less	Over 1 to 5 years	More than 5 years				
(i) Financial Asset								
Cash at bank	177	-	-	-	-	177	5.63%	
Short term deposits	82	-	-	-	-	82	5.63%	
	<u>259</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>259</u>		
(ii) Financial Liabilities								
Other creditors & accruals	-	-	-	-	3,221	3,221	N/A	
Accounts payable - related parties/entities	-	-	-	-	585	585	N/A	
Total financial liabilities	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>3,806</u>	<u>3,806</u>		

N/A : Not applicable for non-interest bearing financial instruments.

(c) Net fair values of financial assets and liabilities

The aggregate net fair values of recognised financial assets and financial liabilities, at the balance date, are as follows:

	Total carrying amount as per the balance sheet		Aggregate net fair value	
	2001 \$'000	2000 \$'000	2001 \$'000	2000 \$'000
Financial asset				
Cash at bank	43	177	43	177
Short term deposits	-	82	-	82
	<u>43</u>	<u>259</u>	<u>43</u>	<u>259</u>
Financial liabilities				
Trade creditors & accruals	6,797	3,221	6,797	3,221
Accounts payable - related parties/entities	919	585	919	585
Total financial liabilities	<u>7,716</u>	<u>3,806</u>	<u>7,716</u>	<u>3,806</u>

(i) The following methods and assumptions are used to determine the net fair values of financial assets and liabilities

Recognised financial instruments

Trade payables: The carrying amount approximates fair value.

Cash and cash equivalents: The carrying amount approximates fair value because of their short term to maturity.

(d) Credit risk exposures

The consolidated entity's maximum exposure to credit risk at balance date in relation to each class of recognised financial asset is the carrying amount, net of any provision for doubtful debts, of those assets as indicated in the balance sheet.

(e) Concentration of credit risk

The consolidated entity is not materially exposed to any individual overseas country or individual customer.

**KINGSTREAM STEEL LIMITED (SUBJECT TO DEED OF COMPANY ARRANGEMENT)
NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
31 DECEMBER 2001**

28. SUBSEQUENT EVENTS

Since the end of the financial year under review and the date of this report, there have arisen the following events that are likely, in the opinion of the directors of the Company, to significantly affect the operations of the consolidated entity, in subsequent financial years:

- (a) On 14 March 2002, the creditors of the company passed a resolution to allow the company to enter into a Deed of Company Arrangement ("DOCA"). The DOCA was executed on 3 April 2002 and contained a provision for the Administrators to seek proposals in relation to the company and, if desired, for the company or the Administrators to enter into a Trust Deed.
- (b) In April 2002, the Company entered into an agreement with Mount Gibson Mining Ltd ("MGM"), a subsidiary of Mount Gibson Iron Ltd ("MGI"), for the sale of its Mining Leases, an Exploration Lease, General Purpose Leases and Miscellaneous Licences covering the Tallering Peak Iron Ore Body. That Sale Agreement had to be amended to incorporate a right to mine in order to resolve a legal issue. That amendment provided for the ownership of the Leases/Licences to remain with the company and all responsibilities and entitlements to mine Tallering Peak to be transferred to MGM. The Leases/Licences will be transferred to MGM under the Mining Rights & Sale Agreement once the legal impediment has been resolved.
- (c) Following discussions between the Company and representatives from the State Government of Western Australia a mutual agreement was reached to terminate the *Iron and Steel (Mid West) Agreement Act 1997* ("State Agreement"). Termination of the State Agreement facilitated the settlement of the Mining Rights and Sale Agreement for Tallering Peak.
- (d) Settlement of the Mining Rights & Sale Agreement took place on 1 August 2002. Total consideration of \$4.53M is payable consisting of \$1.405M in cash, \$1M of MGI shares held in escrow for 9 months and a \$2.125M Converting Note with a Put and Call Option attaching thereto. The terms of the agreement were approved by the Company's Committee of Creditors on 1 August 2002.
- (e) The Administrators have realised most of the company's property, plant and equipment through private sale, public tenders and public auctions. Proceeds from the sale of several properties were paid to the secured creditor, Tippen Pty Ltd, to partially reduce its outstanding debt.
- (f) The Administrators, with the approval of the Committee of Creditors, have finalised a reconstruction proposal with Koolanooka Pellets Pty Ltd ("KPPL"). The KPPL reconstruction proposal was formalised into a conditional Reconstruction Deed and executed on 1 November 2002. An announcement was subsequently lodged at the Australian Stock Exchange ("ASX").

The Reconstruction Deed contemplates the consolidation of the Company's share capital, a capital raising (being a combination of a rights issue, placements and a public offer), payment of cash and the issue of debt capitalisation shares for the benefit of creditors under the DOCA and Trust Deed, the issue of shares to KPPL, the lifting of the company's ASX trading suspension and the termination of the DOCA and coming into effect of a Trust Deed for the benefit of creditors. A meeting of shareholders will be convened on or before 31 January 2003 to ratify the relevant actions contemplated in the Reconstruction Deed.

**KINGSTREAM STEEL LIMITED (SUBJECT TO DEED OF COMPANY ARRANGEMENT)
DIRECTOR'S DECLARATION**

In accordance with a resolution of the directors of Kingstream Steel Limited, I state that:

(1) In the opinion of the directors, given the significant events described in the Directors Report the directors are unable to express an opinion whether:

- (a) the financial statements and notes of the company and of the consolidated entity are in accordance with the Corporations Act 2001, including:
 - (i) giving a true and fair view of the company's and consolidated entity's financial position as at 31 December 2001 and of their performance for the year ended on that date; and
 - (ii) complying with Accounting Standards and 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



Nikolais Zuks
Director

Perth, 17 February 2003

INDEPENDENT AUDIT REPORT

To the members of Kingstream Steel Limited (Subject to Deed of Company Arrangement)

Scope

We have audited the financial report of Kingstream Steel Limited (Subject to Deed of Company Arrangement) for the financial year ended 31 December 2001, as set out on pages 9 to 31, including the Directors' Declaration. The financial report includes the financial statements of Kingstream Steel Limited (Subject to Deed of Company Arrangement), and the consolidated financial statements of the consolidated entity comprising the Company and the entities it controlled at year's end or from time to time during the financial year. The Directors are responsible for the financial report. We have conducted an independent audit of the financial report in order to express an opinion on it to the members of the Company.

Our audit has been conducted in accordance with Australian Auditing Standards to provide reasonable assurance whether the financial report is free of material misstatement. Our procedures included examination, on a test basis, of evidence supporting the amounts and other disclosures in the financial report, and the evaluation of accounting policies and significant accounting estimates. These procedures have been undertaken to form an opinion whether, in all material respects, the financial report is presented fairly in accordance with Accounting Standards, other mandatory professional reporting requirements and statutory requirements in Australia, so as to present a view which is consistent with our understanding of the Company's and the consolidated entity's financial position and performance as represented by the results of their operations and their cash flows.

The audit opinion expressed in this report has been formed on the above basis.

Qualifications

As referred to in Note 1 (a) the Company and the consolidated entity incurred a loss of \$57.146 million and \$65.917 million respectively for the financial year ended 31 December 2001 and subsequent to balance date, have continued to generate a loss. At 31 December 2001, both the Company and the consolidated entity were also in a net current asset deficiency.

On 27 November 2001, the Company and wholly owned subsidiaries Kingstream Pty Limited and Hurda Pty Limited were placed into Voluntary Administration. A proposal to enter the Company and a wholly owned subsidiary Kingstream Pty Limited into a Deed of Company Arrangement was approved at a meeting of creditors on 14 March 2002. Hurda Pty Limited was placed into liquidation on the same date. On 3 April 2002 the Deed of Company Arrangement was executed and Kingstream Steel Limited and Kingstream Pty Limited previously subject to Voluntary Administration became subject to a Deed of Company Arrangement.

The Committee of Creditors approved a restructuring plan for Kingstream Steel Limited and Kingstream Pty Limited and a conditional Reconstruction Deed was executed on 1 November 2002, details of which are included in Note 28(f).

The Reconstruction Deed contemplates a number of events including a capital raising.

The assets of both the Company and the consolidated entity have been recorded at their estimated net realisable value. Liabilities have been recognised in the financial report at full value.

As a result of the above:

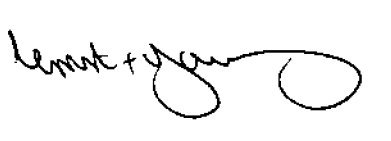
1. Due to the uncertainty at this time relating to the success of the Reconstruction Deed, we are unable to obtain sufficient audit evidence to satisfy ourselves as to the carrying value of the assets.
2. The amount of the liabilities to be settled, by the exchange of debt for equity, and therefore the amount of the liabilities to be released by creditors, is dependent on the outcome of assessments of validity of creditor claims and the implementation of the Reconstruction Deed. The quantification of provisions for rehabilitation and other liabilities may also be dependent on the timing and method of divesture of assets. Therefore, we are unable to obtain sufficient audit evidence to satisfy ourselves as to the amount of liabilities as disclosed in notes 12 and 13.
3. In addition to, and as a result of, the uncertainties detailed in the qualification paragraphs above, we are unable to satisfy ourselves as to whether the Company and the consolidated entity will be able to pay their debts as and when they become due and payable. The financial report may not include all adjustments relating to the recoverability and classification of recorded asset amounts or to the amounts and classification of liabilities that might be necessary.

These constitute limitations on the scope of our audit.

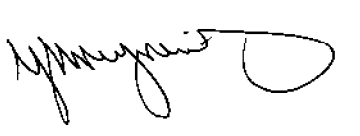
Qualified Audit Opinion

Due to the significance of the uncertainties referred to in the qualification paragraphs (1) to (3) above, we are unable to, and do not, express an opinion as to whether the financial report of Kingstream Steel Limited (Subject to Deed of Company Arrangement) is in accordance with:

- (a) the Corporations Act 2001 including:
 - (i) giving a true and fair view of the company's and consolidated entity's financial position as at 31 December 2001 and of their performance for the year ended on that date; and
 - (ii) complying with Accounting Standards in Australia and the Corporations Regulations 2001; and
- (b) other mandatory professional reporting requirements in Australia.



Ernst & Young



G H Meyerowitz
Partner
Perth
Date: 18 February 2003