

30<sup>th</sup> June 2010



## KING ISLAND SCHEELITE LIMITED ("KIS")

### DOLPHIN JOINT VENTURE (DJV) ANNOUNCES PREFERRED REDEVELOPMENT PLAN

KIS and Hunan Nonferrous Metals Corporation (HNC) are redeveloping the scheelite mine on King Island through their 50/50 DJV.

Following substantial work undertaken in 2009, both parties have agreed to pursue an underground development and adopt whole-ore-flotation (WOF) as the preferred method for ore processing.

Key benefits of this approach include an improved economic outcome and reduced risk.

1. Improved economic outcome
  - Removed substantial up-front capital for a sea wall and cut-off wall ahead of production;
  - Reduced mill capacity and ore throughput to process fewer tonnes at significantly higher grades; and
  - Improved recoveries with WOF techniques.
2. Reduced risk
  - Removed risk of water ingress associated with an open pit cut-off wall;
  - Removed risk of sterilising current and future underground resources and reserves associated with open pit and cut-off wall development; and
  - Adopted proven former mining method.

In addition the DJV is confident of being able to add further value to this project by:

- a. Redeveloping the former underground mine at Bold Head which has a JORC reserve of 0.61Mt at 0.76% WO<sub>3</sub> after applying a 0.70% cut-off. This ore reserve is located approximately 2km north of Dolphin and requires minimal capital investment; and
- b. Adding high-grade tonnes to the current resource and reserve at Dolphin with development drilling.

### Background

The previous DJV mine development plan included an open pit mine and a gravity-based metallurgical process which had the necessary approvals and funding arrangements in place. However, certain key aspects warranted further consideration. These included geotechnical drill testing of the foundations for a cut-off wall and further testing of the potential for a WOF circuit instead of a gravity circuit.

Since forming, the DJV has undertaken substantial further geotechnical drilling to better understand the offshore ground conditions. Despite obtaining this additional data, risk and uncertainty remain regarding the sea wall and open pit concept.

During this period, with the assistance of Chinese experts, the DJV has successfully demonstrated excellent ore recoveries using WOF techniques. This has translated into a revised flow sheet and mill design.

After analysing various mining and milling options, the DJV rejected the open pit mine and gravity milling model in favour of underground mining and WOF milling. This DJV decision, together with a strong tungsten price, has delivered a plan with an acceptable risk / return profile.

## Resource & Reserve

The DJV rebuilt the former mine block model to ensure its underground study was based on an appropriate level of detail. This has resulted in slightly fewer tonnes but at higher grades. Using a 0.70% cut-off, a JORC compliant reserve was developed as released by KIS to the market earlier this year.

Classification	Tonnes '000	WO <sub>3</sub> %	Tonnes WO <sub>3</sub>	Tonnes '000	WO <sub>3</sub> %	Tonnes WO <sub>3</sub>
Resource	0.25% WO <sub>3</sub> cut off			0.70% WO <sub>3</sub> cut off		
Indicated	8,419	0.95	79,980	4,752	1.29	61,300
Inferred	524	0.50	2,620	7	0.73	50
Total	8,943	0.92	82,600	4,759	1.29	61,350
Reserve				0.70% WO <sub>3</sub> cut off		
Probable				1,630	1.30	21,150

*Prepared in accordance with the JORC Code 2004*

*Refer to attached compliance statements provided by Tim Callaghan, Resource and Exploration Geology and Alan Fudge, Polberro Consulting.*

## Development plan

### Mine

Dewater the pit and rehabilitate existing decline near the base of the old pit. Use predominantly post-pillar stoping to mine and use classified tailings for hydraulic fill. An external contractor is to be appointed to undertake these activities.

### Mill

Build a new mill on the old site based on a feed of 300ktpa and WOF flow sheet. The current scoping study is based on new Australian-sourced equipment but alternate sources will be considered. The DJV will manage the construction and operation of this facility.

### Infrastructure

A project office has already been established on the island at Grassy. Land required for the redevelopment has been secured and energy solutions have been developed to serve our mine and mill requirements.

### Market

KIS is working with HNC to ensure it secures the best price for its DJV product whether sold to entities in China or entities outside China.

### Future potential

The DJV has the option to re-open the former Bold Head underground mine which would utilise the Dolphin infrastructure and processing facilities. Whilst substantial work has already been completed, certain approvals and access are required.

The DJV plans to undertake development drilling to extend the current high grade resource and reserve beyond the -250mRL. Historic records indicate high-grade ore is likely to continue down-plunge. This has the potential to add significant value to the project utilising the same infrastructure and processing facility.

### Timeframe and economics

The next phase of this project involves detailed mill design and costing as well as variations to the various approvals already in place. Once approved, this phase could be undertaken over a period of 6-9 months.

The construction phase that will follow is expected to take 2 years which could see the DJV in production by late 2012.

The DJV expects an economic outcome of at least 20% IRR based on today's tungsten price. This does not include the potential from Bold Head or additional tonnes from development drilling.

In addition to advancing the Dolphin project, KIS remains focused on opportunities to grow the company through exploration, as demonstrated by its current Balfour Joint Venture (BJV) drilling programme at Balfour in northwestern Tasmania, and through merger and acquisition opportunities as and when they arise.

For further information see the company's website [www.kingislandscheelite.com.au](http://www.kingislandscheelite.com.au).



**Simon Bird**  
Chief Executive Officer  
King Island Scheelite Limited

Level 1, 101 Sussex Street  
Sydney NSW 2000  
Phone (02) 8622 1400  
Fax (02) 8622 1401  
Email [simon.bird@kingislandscheelite.com.au](mailto:simon.bird@kingislandscheelite.com.au)

#### **Explanatory Notes for Resource Statement: Competent Person and JORC Code**

The resource report was prepared in accordance with the 2004 Edition of the 'Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves' ("JORC Code") by Consultant Geologist Mr Tim Callaghan of Resource and Exploration Geology, who is a Member of The Australasian Institute of Mining and Metallurgy ("AusIMM"); has a minimum of twenty years experience as a geologist, five of which are in the estimation, assessment and evaluation of Mineral Resources of this style and is the Competent Person as defined in the JORC Code. This announcement accurately summarises and fairly reports his estimations and he has consented in writing to the resource report in the form and context in which it appears.

#### **Explanatory Notes for Reserve Statement: Competent Person and JORC Code**

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