



31 October 2006

**King Island Scheelite Ltd**

**King Island Scheelite Mine Redevelopment Project**

**Report for the Quarter ended 30 September 2006**

On 3 October 2006, King Island Scheelite Limited (KIS) announced the results of the Feasibility Study for the King Island Scheelite mine re-development project. This Feasibility Study has been carried out over the past 16 months since KIS completed the acquisition of Australian Tungsten Pty Ltd. KIS is the 100% owner of the project.

KIS has invested \$4 million in the Feasibility Study and drilling programme over that period.

**Feasibility Study**

The Base Case for the project provides for the establishment of a mine and mill complex with capacity to treat 600,000 tpa of tungsten bearing scheelite ore produced from an open pit mine.

In April 2006, KIS released the results of a resource assessment prepared by AMC Consultants that demonstrated the presence of a resource of 13.4 million tonnes grading 0.64% WO<sub>3</sub> potentially recoverable from an open pit mine to a depth of 308 metres below sea level.

The mining plan developed for the Feasibility Study provides for the initial development of an open pit mine to a depth of 180 metres. As further information becomes available during operations together with more detailed design for waste disposal, it is expected that the mining operations will continue to the -248 metre pit subject to obtaining the necessary approvals for the expanded pit requirements at that time. It is anticipated that the initial pit will permit the recovery of 6.8 million tonnes grading 0.55% WO<sub>3</sub> over a projected mine life of 10 years.

Selective mining will be practised to maximise the grade of ore presented to the mill over the early years of the project. Lower grade material will be separated and stockpiled for treatment after the mining operations have ceased.

Annual output (WO<sub>3</sub>) from the project will range from 100,000 mtu up to a peak of 500,000 mtu, averaging 300,000 mtu over the first ten years of operation. Fluctuations in output reflect changing ore grades as successive high grade or lower grade parts of the deposit are mined.

Overall strip ratio for the initial pit is 8 to 1 on a bcm of waste to bcm of ore basis. Dilution assumption is 10%.

The mine extends the existing open pit mine eastwards toward the sea. The pit will be protected by a sea-wall and reclamation area using overburden from the open pit mine. It is intended to make available to the Tasmanian State Government some of the overburden produced should they decide to build a new breakwater and port to augment the small existing port that was developed using overburden from the open pit mine that operated from 1917 to 1973.

Water ingress to the pit will be controlled by construction of a low permeability “cut-off” wall protecting the perimeter of the pit, using technology widely used around the world in similar situations in civil construction.

The mill will be a 600,000 tpa plant comprising crushing, high pressure grinding rolls, finishing ball mill, gravity section, magnetic separation, and flotation plant.

Tailings from the concentration process will be placed in a tailings dam to be built on top of the old KIS tailings dam.

The anticipated start-up capital cost of the project totals \$85 million. This covers the cost of the mining equipment, mill, associated site requirements, cut-off wall to protect the pit and project costs. In addition, up to \$15 million will be spent on pre-strip over the first year to open up the mine.

In order to restart the mine, approvals and licences are required from the Federal, State and Local Government authorities. To date, mine permit conditions have been issued by the relevant Tasmanian State Government authority. This permit is subject to further approval from the King Island Council, which is also the authority responsible for granting development approval. The Council is well advanced in its assessments of the project application. The Federal government’s Department of Environment and Heritage is also well advanced in its assessment of the proposal. Outcomes of these assessments are expected by year-end.

The plant will produce marketable scheelite concentrates with an average grade of +65% WO<sub>3</sub>. These will be shipped to market in 20 tonne containers from the King Island port, immediately adjacent to the mine.

During the construction stage of the project, KIS expects that there will be 150 people working on the project. Approximately 100 people will be employed once normal operations are achieved. The workforce will be accommodated in current and new housing in the Grassy township and elsewhere on the island. Some additional temporary accommodation may be required during the construction stage.

Power will be provided by independent contractors using diesel powered generating sets.

### Project Economics

Over the first ten years of the mine life, cash operating costs are projected to average A\$40 to \$45 per tonne of ore treated. This translates to an average of US\$65 to US\$75 per mtu of WO<sub>3</sub> produced.

One of the most challenging aspects of the Feasibility Study relates to the appropriate long-term tungsten concentrate price to use for project valuation. There is considerable uncertainty regarding the likely mine-life price. Over the last 12 months the weekly tungsten

concentrate price, as quoted by Metal Pages, an industry news service, has averaged US\$200 per mtu WO<sub>3</sub>, but has ranged from approximately US\$150 to US\$250 per mtu WO<sub>3</sub>. The current market price is approximately \$220 per mtu.

KIS, in collaboration with Xiamen Tungsten Corporation of China (XTC), its planned Joint Venture partner, is also evaluating opportunities to optimise the project configuration and development plan; and there is potential to considerably enhance the project economics. However, these optimisation studies require further work and are not included in the current Feasibility Study.

## Outlook

The next steps in advancing toward development of the project are:

- Finalisation of the Joint Venture between XTC and KIS
- Finalisation of the Feasibility Study after XTC's review
- Finalisation of required Development Approvals
- Finalisation of financing arrangements.

The project timetable provides for these steps to be completed by the end of December this year. If Financial Close can be achieved at this time, it is expected that detailed design and construction can be completed during 2007, with commissioning and first concentrates being produced in late 2007 to early 2008.

For additional information about King Island Scheelite please visit the company's website – [www.kingislandscheelite.com.au](http://www.kingislandscheelite.com.au)

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## Appendix 5B

### Mining exploration entity quarterly report

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

Name of entity

KING ISLAND SCHEELITE LIMITED

ABN

40 004 681 734

Quarter ended ("current quarter")

30 September 2006

#### Consolidated statement of cash flows

	Current quarter	Year to date (12 months)
	\$A'000	\$A'000
<b>Cash flows related to operating activities</b>		
1.1 Receipts from product sales and related debtors	-	-
1.2 Payments for (a) exploration and evaluation	(782)	(782)
(b) development	-	-
(c) production	(312)	(312)
(d) administration	-	-
1.3 Dividends received	-	-
1.4 Interest and other items of a similar nature received	42	42
1.5 Interest and other costs of finance paid	-	-
1.6 Income taxes paid	-	-
1.7 Other (provide details if material)	-	-
<b>Net Operating Cash Flows</b>	<b>(1,052)</b>	<b>(1,052)</b>
<b>Cash flows related to investing activities</b>		
1.8 Payment for purchases of:	-	-
(a) prospects	-	-
(b) equity investments	-	-
(c) other fixed assets	-	-
1.9 Proceeds from sale of:	-	-
(a) prospects	-	-
(b) equity investments	-	-
(c) other fixed assets	-	-
1.10 Loans to other entities	-	-
1.11 Loans repaid by other entities	-	-
1.12 Other (provide details if material)	60	60
<b>Net investing cash flows</b>	<b>60</b>	<b>60</b>
1.13 Total operating and investing cash flows (carried forward)	<b>(992)</b>	<b>(992)</b>

+ See chapter 19 for defined terms.

1.13	Total operating and investing cash flows (brought forward)	(992)	(992)
<b>Cash flows related to financing activities</b>			
1.14	Proceeds from issues of shares, options, etc.	-	-
1.15	Proceeds from sale of forfeited shares	-	-
1.16	Proceeds from borrowings	-	-
1.17	Repayment of borrowings	-	-
1.18	Dividends paid	-	-
1.19	Other (provide details if material)	-	-
	<b>Net financing cash flows</b>	-	-
	<b>Net increase (decrease) in cash held</b>	(992)	(992)
1.20	Cash at beginning of quarter/year to date	3,323	3,323
1.21	Exchange rate adjustments to item 1.20		
1.22	<b>Cash at end of quarter</b>	2,331	2,331

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

		Current quarter \$A'000
1.23	Aggregate amount of payments to the parties included in item 1.2	80
1.24	Aggregate amount of loans to the parties included in item 1.10	Nil

1.25 Explanation necessary for an understanding of the transactions

Consulting Fees

29
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Directors' Fees

51
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**Non-cash financing and investing activities**

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

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

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**Financing facilities available**

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

		Amount available \$A'000	Amount used \$A'000
3.1	Loan facilities	N/A	N/A
3.2	Credit standby arrangements	N/A	N/A

+ See chapter 19 for defined terms.

**Estimated cash outflows for next quarter**

		\$A'000
4.1	Exploration and evaluation	528
4.2	Development	475
<b>Total</b>		1,003

**Reconciliation of cash**

Reconciliation of cash at the end of the quarter (as shown in the consolidated statement of cash flows) to the related items in the accounts is as follows.	Current quarter \$A'000	Previous quarter \$A'000
5.1 Cash on hand and at bank	111	522
5.2 Deposits at call	2,220	2,800
5.3 Bank overdraft		
5.4 Other (provide details)		
<b>Total: cash at end of quarter (item 1.22)</b>	2,331	3,322

**Changes in interests in mining tenements**

	Tenement reference	Nature of interest (note (2))	Interest at beginning of quarter	Interest at end of quarter
6.1	Interests in mining tenements relinquished, reduced or lapsed		Nil	Nil
6.2	Interests in mining tenements acquired or increased			
	Retention Licence RL 2/1988 at Grassy, King Island (8 sq kms)	Ownership of mining tenement	100%	100%
	Exploration Licence 19/2001 at Grassy, King Island (91 sq kms)	Ownership of mining tenement	100%	100%
	Exploration Licence 16/2002 at Grassy, King Island (18 sq kms)	Ownership of mining tenement	100%	100%
	Lease 1M/2006 at Grassy, King Island (544 hectares)	Ownership of mining tenement	100%	100%

+ See chapter 19 for defined terms.

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

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

	Total number	Number quoted	Issue price per security (see note 3) (cents)	Amount paid up per security (see note 3) (cents)
7.1 <b>Preference securities</b> <i>(description)</i>				
7.2 Changes during quarter (a) Increases through issues (b) Decreases through returns of capital, buy-backs, redemptions				
7.3 <b>+Ordinary securities</b>	35,970,026	35,970,026		
7.4 Changes during quarter (a) Increases through issues (b) Decreases through returns of capital, buy-backs				
7.5 <b>+Convertible debt securities</b> <i>(description)</i>				
7.6 Changes during quarter (a) Increases through issues (b) Decreases through securities matured, converted				
7.7 <b>Options</b> <i>(description and conversion factor)</i>			<i>Exercise price</i>	<i>Expiry date</i>
First Tranche	437,500	-	\$0.00001	5 years from issue date (4 July 2005)
Second Tranche	562,500	-	\$0.00001	
7.8 Issued during quarter				
7.9 Exercised during quarter				
7.10 Expired during quarter				
7.11 <b>Debentures</b> <i>(totals only)</i>				

+ See chapter 19 for defined terms.

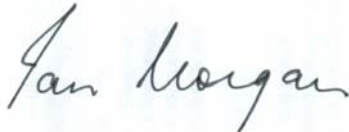
7.12	<b>Unsecured notes</b> ( <i>totals only</i> )		
	<b>Closing Performance Shares</b> (issued 30 May 2005)		
	First Tranche	8,000,000	-
	Second Tranche	8,000,000	-

**Compliance statement**

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

2 This statement does ~~does not~~\* (*delete one*) give a true and fair view of the matters disclosed.

Sign here:



Print name: Ian Morgan      Date: 31 October 2006

(~~Director~~/Company secretary)

**Notes**

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

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

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

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

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

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