

31 January 2008

**King Island Scheelite Ltd (“Company”)  
King Island Scheelite Mine Redevelopment Project  
Report for the Quarter ended 31 December 2007**

**King Island Scheelite and Hunan Nonferrous Metals Corp (“HNC”) proposed joint venture to re-develop the King Island scheelite mine**

In December the Company announced that it had signed a series of documents that created an unincorporated joint venture with HNC. This joint venture, in which both parties have an equal share, will re-develop the King Island mine into one of the largest tungsten producers in the western world.

As part of this arrangement HNC will contribute 50% of the construction costs of the project, and provide the Company with debt funding to finance its share of construction costs. This debt will attract an interest rate of 8% and repayments will be matched to a proportion of the cash flow generated by the project.

In addition, HNC will subscribe to 4,450,000 shares in the Company, to be issued at a price of \$1.00 per share. HNC will nominate one director to take a seat on the Board of the Company.

A number of the conditions precedent in the agreements have already been satisfied, and the Company expects that the remainder, such as receiving the approval of the Chinese Government and the Company’s shareholders, will be satisfied in March. Following this, the Company anticipates that there will be a 21 month period during which detailed engineering and construction are completed. Given that the Company has all necessary development approvals in place, these activities can commence immediately.

Prior to the commencement of construction the Company is undertaking preparatory work on infrastructure, support services and procurement strategies. This includes discussions and preliminary negotiations with parties interested in providing accommodation, freight, fuel, power and other services. In addition, work has commenced on identifying the optimal sources, both within Australia and overseas, for the purchase of processing equipment.

**Tungsten Market**

In US dollar terms the tungsten concentrate market has softened slightly to levels around US\$180 – US\$190 per mtu (1 mtu = 10kg), with the Australian dollar lately trading in the range of 86 cents to 88 cents. Demand continues also to be healthy,

with customers both within China and elsewhere keen to lock in major sources of long term supply, which the King Island project will be able to deliver.

## Outlook

The Company anticipates finalizing the conditions precedent in the joint venture agreements in March, at which time the proceeds from the issue of shares to HNC will be received and funding commence for the re-development of the project.

After completion of the joint venture agreements, additional funding would total \$4,450,000 received from the issue of shares to HNC; plus an estimated joint venture debt facility totalling \$110 million for re-development of the mine.

Construction activities will begin immediately thereafter, with ordering of long lead time items and detailed engineering being the first activities undertaken.

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

For further information, please contact:  
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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")

31 December 2007

#### Consolidated statement of cash flows

Cash flows related to operating activities	Current quarter	Year to date (6 months)
	\$A'000	\$A'000
1.1 Receipts from product sales and related debtors	-	-
1.2 Payments for		
(a) exploration and evaluation	(445)	(1,562)
(b) development	-	-
(c) production	-	-
(d) administration	(514)	(824)
1.3 Dividends received	-	-
1.4 Interest and other items of a similar nature received	35	90
1.5 Interest and other costs of finance paid	-	-
1.6 Income taxes paid	-	-
1.7 Other (Research & Development Grant)	-	-
<b>Net Operating Cash Flows</b>	<b>(924)</b>	<b>(2,296)</b>
<b>Cash flows related to investing activities</b>		
1.8 Payment for purchases of:		
(a) prospects	-	-
(b) equity investments	-	-
(c) other fixed assets	(4)	(4)
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)	50	50
<b>Net investing cash flows</b>	<b>46</b>	<b>46</b>
1.13 Total operating and investing cash flows (carried forward)	<b>(878)</b>	<b>(2,250)</b>

1.13	Total operating and investing cash flows (brought forward)	(878)	(2,250)
	<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 (Brokerage costs)	-	-
	<b>Net financing cash flows</b>	-	-
	<b>Net increase (decrease) in cash held</b>	(878)	(2,250)
1.20	Cash at beginning of quarter/year to date	2,463	3,835
1.21	Exchange rate adjustments to item 1.20		
1.22	<b>Cash at end of quarter</b>	1,585	1,585

**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	220
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	
	Payments to related parties – office sub-rental and office supplies	175
	Directors' Fees	45

**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

**Estimated cash outflows for next quarter**

	\$A'000
4.1 Exploration and evaluation	900
4.2 Development	-
<b>Total</b>	<b>900</b>

**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	385	163
5.2 Deposits at call	1,200	2,300
5.3 Bank overdraft		
5.4 Other (provide details)		
<b>Total: cash at end of quarter</b> (item 1.22)	<b>1,585</b>	<b>2,463</b>

**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 2/1998 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%

**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>	40,015,001	40,015,001		
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	<i>5 years from issue date (4 July 2005)</i>
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>				
7.12 <b>Unsecured notes</b> <i>(totals only)</i>				

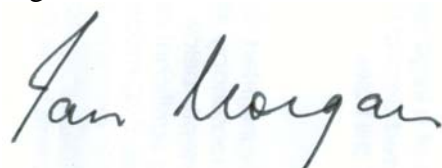
<b>Closing Performance Shares</b> (issued 30 May 2005)		
First Tranche	8,000,000	-
Second Tranche	8,000,000	-

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

Sign here:



Date: 31 January 2008  
(~~Director~~/Company secretary)

Print name: Ian Morgan

**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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