

30<sup>th</sup> JULY 2010

KING ISLAND  
SCHEELITE



KING ISLAND SCHEELITE LIMITED ("KIS")

REPORT FOR THE QUARTER ENDED 30 JUNE 2010

### Key points

- *Magnetite-copper-gold discovery associated with a coincident magnetic susceptibility / gravity target in Proterozoic rocks NNW of Balfour, Tasmania.*
- *Dolphin underground redevelopment plan confirmed; detailed design subject to joint venture approval.*

### Balfour Joint Venture (BJV)

The BJV with Pleiades Resources Pty Ltd was formed to explore the Balfour tenements in north-western Tasmania.

The Specimen Hill (tin-tungsten) prospect and the Roaring 41 South (R41S) (magnetite-copper-gold) target were identified following a BJV ground-based gravity survey in early 2009. A drilling programme was planned to assess the possibility of developing an open pit at Specimen Hill. The drilling was completed late last year with tin and tungsten intercepts reported but with no further work planned.

At R41S a two-hole drilling programme was planned to test the top of the magnetic body associated with a discrete gravity body in Proterozoic rocks.

Achievements this quarter include two diamond drill holes being completed at R41S with magnetite-copper-gold intercepts identified within altered and fractured host rocks;

- |           |   |
|-----------|---|
| R41S – 01 | 5m @ 0.9% Cu, 0.1g/t Au magnetite-copper-gold mineralisation within chlorite altered rocks; and |
| R41S – 02 | 1m @ 0.5% Cu, 0.1g/t Au copper-gold mineralisation in quartz-carbonate-sulphide veined rocks.   |

Analysis and down-hole geophysics at R41S are likely to lead to further drill-testing at this new discovery of magnetite-copper-gold mineralization located to the NNW of Balfour..

### Dolphin Joint Venture (DJV)

The joint venture with Hunan Nonferrous Metals Corporation is focused on redeveloping the tungsten resource on King Island.

Achievements this quarter include:

1. Confirmed world class resources at Dolphin and Bold Head;

Dolphin						
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

Bold Head						
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			0.50% WO <sub>3</sub> cut off		
Indicated	2,300	0.73	16,800	1,500	0.93	13,950
Inferred	170	1.13	1,900	150	1.22	1,830
Total	2,470	0.76	18,700	1,650	0.96	15,780
Reserve				0.70% WO <sub>3</sub> cut off		
Probable				609	0.76	4,630

2. Identified potential for significantly more high-grade ore down-plunge from the drill-defined Dolphin mineralisation;
3. Utilised the services of the former mine manager to develop a Dolphin underground mine plan based on proven methods and costs provided by external contract miners;
4. Revised the mill design and cost in line with the new mine plan.

Key aspects of the DJV's redevelopment plan now include:

1. Dewater and rehabilitate the former underground mine at Dolphin;
2. Construct a processing facility based on whole-ore-flotation with 300,000 tonne pa capacity;
3. Recommence underground operations mining 1.30% WO<sub>3</sub> (average grades);
4. Produce 3,300 tonnes per annum of 65% WO<sub>3</sub> concentrate;
5. Provide a Dolphin project IRR of >20%, not including the likely down-plunge ore at Dolphin or the Bold Head resource.

The important next step for this project is to obtain approval from the DJV participants to complete detailed design and costing ahead of any procurement and construction activities.

## Tungsten Market

Tungsten prices in RMB and USD terms continue to improve this quarter, with prices having now increased some 40% over the last twelve months. The average price in AUD has increased 19% this quarter.

## Financial

The DJV project remains fully funded through the DJV arrangements with HNC. These arrangements include a \$63.25 million loan facility for KIS 50% share of development costs. KIS retains a cash balance of \$2.62 million (Mar 10 \$2.78 million). Management continued to limit costs this quarter and, based on internal management accounts, the (unaudited) loss before tax for the year ended 30 June 2010 is expected to total \$0.9 million (2009 \$1.9 million).

## Outlook

The BJV will undertake further exploration at R41S to better define the magnetite-copper-gold target hosted in Proterozoic rocks. This exploration is subject to the BJV approving the next stages of this programme.

Subject to approval from both joint venture participants the DJV intends to undertake detailed design and feasibility work at Dolphin.

The DJV is to assess the potential to develop the Bold Head resource to provide supplemental high-grade WO<sub>3</sub> feed to the Dolphin operation.

The DJV will also consider the timing & scope of any development drilling at Dolphin in order to identify additional high-grade tonnes.

KIS continues to assess future growth opportunities and strategic alliances, particularly in this environment of growth in industrial output and limited new sources of strategic metals.

For further information see "Investor Update" presentation available on the company's website [www.kingislandscheelite.com.au](http://www.kingislandscheelite.com.au).



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#### **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 Reserves Statement: Competent Person and JORC Code**

The reserves 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 Mining Engineer Mr Alan Fudge of Polberro Consulting, who is a Member of The Australasian Institute of Mining and Metallurgy ("AusIMM") and has a minimum of five years experience in the estimation, assessment and evaluation of Mineral Reserves of this style and is a Competent Person as defined in the JORC Code (2004). This announcement accurately summarises and fairly reports his estimations and he has consented in writing to the reserve report in the form and context in which it appears.

