

Report for the Quarter Ended 30 September 2018

KING ISLAND
SCHEELITE



ASX: KIS

| | |
|-----------------------|----------------|
| Market Capitalisation | \$21.3 million |
| Shares on Issue | 244.5 million |
| 52 Week High | 13.5 cents |
| 52 Week Low | 3.5 cents |
| Share Price | 8.7 cents |

Board of Directors

| | |
|---------------|----------|
| Johann Jacobs | Chairman |
| Allan Davies | Director |
| Chris Ellis | Director |

**Tungsten APT US\$ 277/mtu
(25 October 2018)**

King Island Scheelite Limited (KIS)

through its 100% Dolphin Project on King Island, Tasmania is one of the world's richest tungsten deposits.

King Island Scheelite Limited

ABN 40 004 681 734

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HIGHLIGHTS

- **Metallurgical test-work at ALS Burnie nearing completion**
- **Completed geotechnical drilling at Dolphin**
- **Xenith Consulting substantially completed update to mine plan comparing ADTs (articulated dump trucks) with conventional rigid body trucks**
- **Processing Plant engineering study by Gekko - 80% complete – final report due November 2018**
- **Contracted to acquire Portside Links, an adjoining property to the Dolphin project**
- **Attended annual tungsten industry conference in Chengdhu, China**
- **Renounceable rights offer successfully completed raising \$1.5million cash**
- **Annual general meeting scheduled for 2.00pm AEDT Thursday 29 November 2018**
- **The tungsten market for APT remains strong, with the current price at US\$277/mtu**

31 October 2018

King Island Scheelite Limited (ASX: KIS) presents its activity report for the quarter ended 30 September 2018.

Metallurgical Testing Programme

During the previous quarter, KIS completed a diamond drilling program in the Dolphin Project mine void. The programme recovered three x 100 kg samples of typical ore types, from locations that will be representative of ore mined in the early years of production.

Testing on all three samples is nearing completion, with the results achieved being largely consistent with expectations. The gravity circuit has been enhanced by the addition of another scavenger stage, resulting in an overall recovery of approximately 60% to produce a concentrate grade of near 65%.

Flotation work is ongoing. The aim of this work is to produce a low-grade concentrate from a relatively low cost and simple flotation circuit.

The testing is designed to optimise the gravity circuit and evaluate selective gravity tailing streams in a simple flotation circuit.

Geotechnical Drilling

A two-hole geotechnical drilling programme was conducted during the quarter. The first hole's assay results were released on 3 October 2018 to the market. The second hole's assay results were recently received and released to the market on 29 October 2018. Geotechnical assessment work is on-going and will be used to finalise the eastern highwall design and the location of the membrane cut-off wall.

Updated Mining Plan

Xenith Consulting undertook a further iteration of the mine plan with the objective of better matching production schedules to the revised processing capacity and examining the benefits of using ADTs (articulated dump trucks) for haulage of waste and ore during mining. The results of various alternatives are being assessed in terms of the overall lifetime costs for the open cut mine.

Processing Plant Engineering Study

KIS's management is working with Gekko Systems to design and cost a modular processing plant based on the current test work results from ALS. Modular design is preferred, because it keeps construction and commissioning costs to a minimum. The crushing, grinding and gravity areas of plant design are substantially complete. Flotation is to be finalized, based on the ongoing test results.

During November 2018, a design and costing report is due to be submitted to KIS.

Acquisition of Portside Links

During the quarter, KIS contracted to acquire the property and improvements, known as Portside Links, which adjoins the Dolphin pit. KIS regards the acquisition to be strategically important, providing direct access to the Grassy Port and enabling KIS to secure all land necessary to redevelop the Dolphin mine. In addition, all the structures on the property will be utilized as offices, accommodation, stores or workshops when redevelopment commences.

The contracted purchase price for Portside Links is A\$2.6 million, financed through securing a loan from an entity associated with KIS's director and substantial shareholder Mr Chris Ellis.

[Annual General Meeting of International Tungsten Industry Association \(ITIA\)](#)

The annual general meeting of the ITIA was recently held in Chengdu China.

At the conference, KIS Chairman Johann Jacobs met with and continued discussions with potential off-takers of scheelite concentrate. As a consequence, proposed term sheets for long term off-take arrangements, were forwarded to two European based companies, for purchase of the concentrate from the Dolphin mine, for conversion into APT (ammonium paratungstate).

Presenters at the meeting are optimistic following industry demand growth of 7% during 2017 and a forecast annual compound growth rate of 3% per annum over the next ten years.

[Renounceable Rights Offer](#)

On 19 June 2018, KIS announced a renounceable 1 for 8 rights offer priced at A\$0.055 per new share plus, for each two new shares taken up under the Offer, a free attaching option exercisable at A\$0.10 each share over a 3-year period to 1 August 2021. Existing eligible shareholders were also able to subscribe for additional short-fall shares in addition to their rights allocation.

The Offer raised \$1,493,878, before costs associated with the capital raising. Funds raised will be mainly used to fund the redevelopment studies of the Dolphin mine.

[Pit pumping](#)

Consistent with previous plans, inflow of water from predominantly rain water runoff is managed with a pump utilised on a regular basis to maintain a consistent water level in the sump.

After a reasonably dry June quarter, where rainfall was 296mm, the September quarter was wetter with rainfall of 413mm.

[KIS Annual General Meeting 2018](#)

KIS's annual general meeting, scheduled to commence at 2.00pm AEDT Thursday 29 November 2018, is to be held in the conference room on Level 26, 259 George Street, Sydney. Shareholders are encouraged to attend the AGM or submit a proxy if unable to attend.

[APT market](#)

APT (ammonium paratungstate) is an intermediate product in the conversion of concentrate to final tungsten products and its price is used as a benchmark price for the sale of WO₃ concentrate, as it is regularly quoted in industry journals. APT reached an all-time high of US\$460-500/mtu in May 2011, however prices then declined rapidly reaching nine-year lows late in 2015 and remained depressed throughout most of 2016 and into early 2017, averaging US\$190/mtu (A\$255/mtu) over this period.

Tungsten market prices rebounded significantly in the second half of 2017 and into 2018, commencing in July 2017 at US\$223/mtu and with the price reaching a high of US\$350/mtu.

The average price for the quarter ending June 2018 was US\$336/mtu. The price has fallen since however, with the average price in the September 2018 quarter being US\$311/mtu (A\$425/mtu), and the price currently at US\$277/mtu (A\$390/mtu).

Finance

| | Tenement reference | Nature of interest |
|---|--|--------------------|
| Mining tenements held at the end of the quarter | Exploration Licence EL 19/2001 at Grassy, King Island, TAS (91 sq kms) | 100% ownership |
| | Mining Lease ML 1M/2006 at Grassy, King Island, TAS (544 hectares) | 100% ownership |
| Mining tenements acquired during the quarter | Nil | Nil |
| Mining tenements relinquished during the quarter | Nil | Nil |
| Beneficial percentage interests held in farm-in or farm-out agreements at the end of the quarter | Nil | Nil |
| Beneficial percentage interests in farm-in or farm-out agreements acquired or disposed during the quarter | Nil | Nil |

Project Expenditure

Following is a summary of the expenditure incurred on project activities during the quarter:

| | \$'000 |
|------------------------------------|-------------------|
| Dewatering | 31 |
| Project management | 45 |
| Mine planning & geological work | 250 |
| Metallurgical & laboratory testing | 98 |
| Environmental | 12 |
| Other Feasibility Study work | 26 |
| TOTAL | <u>462</u> |

Web-Site

KIS recently completed an update of its web-site, which can be viewed at www.kingislandscheelite.com.au



Johann Jacobs

Chairman

31 October 2018

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For further information go to the company's website www.kingislandscheelite.com.au

Appendix 5B

Mining exploration entity and oil and gas exploration entity quarterly report

Introduced 01/07/96 Origin Appendix 8 Amended 01/07/97, 01/07/98, 30/09/01, 01/06/10, 17/12/10, 01/05/13, 01/09/16

Name of entity

KING ISLAND SCHEELITE LIMITED

ABN

40 004 681 734

Quarter ended ("current quarter")

30 September 2018

| Consolidated statement of cash flows | Current quarter \$A'000 | Year to date (3 months) \$A'000 |
|---|----------------------------|---------------------------------------|
| 1. Cash flows from operating activities | | |
| 1.1 Receipts from customers | - | - |
| 1.2 Payments for | | |
| (a) exploration & evaluation | (462) | (462) |
| (b) development | - | - |
| (c) production | - | - |
| (d) staff costs | - | - |
| (e) administration and corporate costs | (192) | (192) |
| 1.3 Dividends received (see note 3) | - | - |
| 1.4 Interest received | 2 | 2 |
| 1.5 Interest and other costs of finance paid | - | - |
| 1.6 Income taxes paid | - | - |
| 1.7 Research and development refunds | - | - |
| 1.8 Other (provide details if material) | - | - |
| 1.9 Net cash from / (used in) operating activities | (652) | (652) |

| | | |
|--|-----|-----|
| 2. Cash flows from investing activities | | |
| 2.1 Payments to acquire: | | |
| (a) property, plant and equipment | (9) | (9) |
| (b) tenements (see item 10) | - | - |
| (c) investments | - | - |
| (d) other non-current assets | - | - |

| Consolidated statement of cash flows | Current quarter \$A'000 | Year to date (3 months) \$A'000 |
|---|----------------------------|---------------------------------------|
| 2.2 Proceeds from the disposal of: | | |
| (a) property, plant and equipment | - | - |
| (b) tenements (see item 10) | - | - |
| (c) investments | - | - |
| (d) other non-current assets | - | - |
| 2.3 Cash flows from loans to other entities | - | - |
| 2.4 Dividends received (see note 3) | - | - |
| 2.5 Other (provide details if material) | - | - |
| 2.6 Net cash from / (used in) investing activities | (9) | (9) |

| | | |
|---|--------------|--------------|
| 3. Cash flows from financing activities | | |
| 3.1 Proceeds from issues of shares | 1,494 | 1,494 |
| 3.2 Proceeds from issue of convertible notes | - | - |
| 3.3 Proceeds from exercise of share options | - | - |
| 3.4 Transaction costs related to issues of shares, convertible notes or options | (87) | (87) |
| 3.5 Proceeds from borrowings | - | - |
| 3.6 Repayment of borrowings | - | - |
| 3.7 Transaction costs related to loans and borrowings | - | - |
| 3.8 Dividends paid | - | - |
| 3.9 Other (provide details if material) | - | - |
| 3.10 Net cash from / (used in) financing activities | 1,407 | 1,407 |

| | | |
|---|--------------|--------------|
| 4. Net increase / (decrease) in cash and cash equivalents for the period | | |
| 4.1 Cash and cash equivalents at beginning of period | 494 | 494 |
| 4.2 Net cash from / (used in) operating activities (item 1.9 above) | (652) | (652) |
| 4.3 Net cash from / (used in) investing activities (item 2.6 above) | (9) | (9) |
| 4.4 Net cash from / (used in) financing activities (item 3.10 above) | 1,407 | 1,407 |
| 4.5 Effect of movement in exchange rates on cash held | - | - |
| 4.6 Cash and cash equivalents at end of period | 1,240 | 1,240 |

| 5. Reconciliation of cash and cash equivalents at the end of the quarter (as shown in the consolidated statement of cash flows) to the related items in the accounts | Current quarter \$A'000 | Previous quarter \$A'000 |
|--|----------------------------|-----------------------------|
| 5.1 Bank balances | 9 | - |
| 5.2 Call deposits | 1,231 | 494 |
| 5.3 Bank overdrafts | - | - |
| 5.4 Other (provide details) | - | - |
| 5.5 Cash and cash equivalents at end of quarter (should equal item 4.6 above) | 1,240 | 494 |

| 6. Payments to directors of the entity and their associates | Current quarter \$A'000 |
|--|----------------------------|
| 6.1 Aggregate amount of payments to these parties included in item 1.2 | 21 |
| 6.2 Aggregate amount of cash flow from loans to these parties included in item 2.3 | - |
| 6.3 Include below any explanation necessary to understand the transactions included in items 6.1 and 6.2 | |

Payment made to Directors and their associate entities – Directors' fees \$21,000, Directors' consulting fees \$Nil, Directors' expenses \$Nil

| 7. Payments to related entities of the entity and their associates | Current quarter \$A'000 |
|--|----------------------------|
| 7.1 Aggregate amount of payments to these parties included in item 1.2 | - |
| 7.2 Aggregate amount of cash flow from loans to these parties included in item 2.3 | - |
| 7.3 Include below any explanation necessary to understand the transactions included in items 7.1 and 7.2 | |

Mining exploration entity and oil and gas exploration entity quarterly report

| 8. Financing facilities available <i>Add notes as necessary for an understanding of the position</i> | Total facility amount at quarter end \$A'000 | Amount drawn at quarter end \$A'000 |
|--|---|--|
| 8.1 Loan facilities | - | - |
| 8.2 Credit standby arrangements | - | - |
| 8.3 Other (please specify) | - | - |
| 8.4 Include below a description of each facility above, including the lender, interest rate and whether it is secured or unsecured. If any additional facilities have been entered into or are proposed to be entered into after quarter end, include details of those facilities as well. | | |

| | |
|--|--|
| | |
|--|--|

| 9. Estimated cash outflows for next quarter | \$A'000 |
|--|--------------------------|
| 9.1 Exploration and evaluation | 684 |
| 9.2 Development | - |
| 9.3 Production | - |
| 9.4 Staff costs | - |
| 9.5 Administration and corporate costs | 336 |
| 9.6 Other (provide details if material) | - |
| 9.7 Total estimated cash outflows | 1,020¹ |

¹ The Company's operating cash outflows are \$652,000 actual (September 2018 quarter) with \$220,000 cash on hand expected at 31 December 2018:

| | | |
|------------------------------|--------------------------------|----------------|
| Cash on hand | 30 September 2018 | \$000 |
| Less estimated cash outflows | Quarter ended 31 December 2018 | 1,240 |
| Expected cash on hand | 31 December 2018 | <u>(1,020)</u> |
| | | <u>220</u> |

The Company expects that funds will be available to finance future operations and that realisation of assets and settlement of liabilities will occur in the normal course of business. \$1,020,000 forecast cash outflow for 31 December 2018 quarter is mainly discretionary. The Company would raise additional funds before committing to further operating cash outflows of the same scale. Whilst it develops the Dolphin mine, the Company expects to continue to have negative operating cash flows. In order to commercialise the Dolphin mine and generate future revenues, additional funding will be required.

Mining exploration entity and oil and gas exploration entity quarterly report

| 10. | Changes in tenements (items 2.1(b) and 2.2(b) above) | Tenement reference and location | Nature of interest | Interest at beginning of quarter | Interest at end of quarter |
|------|---|---|------------------------------|----------------------------------|----------------------------|
| 10.1 | Interests in mining tenements and petroleum tenements lapsed, relinquished or reduced | | | | |
| 10.2 | Interests in mining tenements and petroleum tenements acquired or increased | Exploration Licence EL19/2001 at Grassy, King Island, TAS (91 sq kms) | Ownership of mining tenement | 100% | 100% |
| | | Mining Lease 1ML/2006 at Grassy, King Island, TAS (544 hectares) | Ownership of mining tenement | 100% | 100% |

Compliance statement

- 1 This statement has been prepared in accordance with accounting standards and policies which comply with Listing Rule 19.11A.
- 2 This statement gives a true and fair view of the matters disclosed.



Sign here:
(Director/Company secretary)

Date: 31 October 2018

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 that wishes to disclose additional information is encouraged to do so, in a note or notes included in or attached to this report.
2. If this quarterly report has been prepared in accordance with Australian Accounting Standards, the definitions in, and provisions of, AASB 6: Exploration for and Evaluation of Mineral Resources and AASB 107: Statement of Cash Flows apply to this report. If this quarterly report has been prepared in accordance with other accounting standards agreed by ASX pursuant to Listing Rule 19.11A, the corresponding equivalent standards apply to this report.
3. Dividends received may be classified either as cash flows from operating activities or cash flows from investing activities, depending on the accounting policy of the entity.