



31 July 2006

**King Island Scheelite Ltd**  
**King Island Scheelite Mine Redevelopment Project**  
**Report for the Quarter ended 30 June 2006**

**Highlights**

- Initial geological work complete.
- Mineral Resource 13.4mt @ 0.64% WO<sub>3</sub>.
- Metallurgical processing test program progressing.
- Government approvals on track.
- Final Feasibility Study to be complete by end September 2006.
- Exploration & evaluation expenditure \$1,239,000 for quarter.

**1. Geology and Exploration**

Geological work relating to the re-development of the King Island Scheelite mine is complete.

The next phase of geological work will involve an exploration assessment of opportunities to locate additional scheelite resources. On-going exploration will include the following:

- Better understanding the tungsten mineralisation around the planned pit;
- Extending the geological and mineralogical understanding down-plunge and east-southeast towards the Teredo tungsten target;
- A first-pass re-evaluation of the geology and mineralisation around the former Bold Head underground mine, and
- Re-evaluation of several tungsten prospects located on the western flanks of the Grassy intrusion.

This work is to include the acquisition of high resolution airborne magnetics across both onshore and offshore KIS tenements to assist in the definition of geological features such as rock types, contacts and faults. An extensive data base including drill holes into known mineralisation away from the Dolphin and Bold Head mineralisation will be incorporated into this next phase of work.

## 2. Mineral Resource Estimate

On 13 April 2006, KIS announced to the ASX a Mineral Resource estimate for the Dolphin Resource prepared by AMC Consultants (AMC).

The AMC Mineral Resource estimate identifies the resource potentially recoverable by planned open pit mining comprising remnants from the previous underground operation and other mineralised zones not previously mined.

The drill-hole database used for the resource assessment included information from 593 pre-KIS drill-holes and a further 39 core holes drilled by the KIS since May 2005. This information was used to check and confirm key information such as mineralisation boundaries, presence of stopes and pillars, and to recover metallurgical test samples. The core logs and assays for these drill-holes have been digitised and included in a 3D model of the deposit.

An additional 13 drill-holes were drilled for geotechnical and groundwater assessment purposes.

AMC worked closely with KIS's geological consultant Newnham Exploration and Mining Services (NEMS) to check, and to the extent possible with the pre-KIS data, verify all of the drill-hole and assay information. AMC then developed a 3D block model of the deposit.

AMC reported a Mineral Resource at a cut-off grade of 0.25% WO<sub>3</sub> down to an RL of 308m below sea level of:

	<b>Mineral Resource</b>
Indicated:	13.2 million tonnes @ 0.64% WO <sub>3</sub>
Inferred:	0.2 million tonnes @ 0.35% WO <sub>3</sub>
<b>Total:</b>	<b>13.4 million tonnes @ 0.64% WO<sub>3</sub></b>

These estimates have been classified and reported in accordance with the 2004 JORC Code.

While the Mineral Resources have been classified predominantly as Indicated Resources, it is likely that a significant proportion would have been classified as Measured Resources had it not been for uncertainty with respect to the precise location of underground workings and therefore of remnant mineralisation, and incomplete records relating to some of the old drilling data.

These resource numbers do not include the following:

- Mineralised material down-plunge in the main Dolphin deposit below an RL of minus 308m. The presence of well-mineralised material is known in this area from past drilling and mining activities. However, it is not considered that this material can be recovered by open pit mining.
- Mineralised material at the old Bold Head mine some 3km north of the King Island Scheelite mine. Geopeko records from 1990 indicate that there are approximately

1.7 to 1.9 million tonnes of material grading approximately 0.8% to 0.9% WO<sub>3</sub> remaining at Bold Head.<sup>1</sup>

### **3. Mine planning**

Optimisation of the mine-plan continues. This work has been greatly facilitated by the availability of the detailed 3D model developed by AMC Consultants. The project is sensitive to the head grade of ore delivered to the mill and selective mining of the higher grade ore is being evaluated. Under this scenario, lower grade ore would be stockpiled for treatment once higher grade ore supply has been exhausted.

Scheelite ores are oxide ores and do not deteriorate if exposed to atmosphere.

A detailed mine production schedule has been completed based on a production and treatment rate of 600,000 tonnes of ore per year. It is designed to minimise upfront capital expenditure in the first years of the project.

The mine production schedule and pit plans have been provided to mining contractors for pricing of the mining project. In addition, the company has also commissioned specialist mining consultants to separately estimate mining costs in the light of revised mining production rates and given the generally increased mining costs across Australia.

Not all of the material contained in the Mineral Resource estimate will necessarily be recoverable from the planned open pit mine. Further work is required to finalise capital and operating costs, mill recoveries, final pit slopes and other key parameters before an Ore Reserve can be estimated.

Finalisation of the Ore Reserves is dependent on completion of the Final Feasibility Study.

### **4. Sea Wall**

Development of the planned open pit mine is dependent on extending the reclaimed area of Grassy Bay and construction of a sea wall to protect that reclamation.

Engineers GHD have been assisting with the design of the sea wall, reclamation area, and impermeable cut-off wall to prevent water ingress to the pit. Provision has been made for these costs in the capital cost estimate.

The development of the open pit mine offers a major community benefit to the people of King Island and the Bass Strait region generally. The adjacent Grassy Port was constructed using over-burden from the original King Island open pit mine. The new pit will allow construction of a new port with capacity to take larger ships that can significantly reduce the cost of shipping to and from the island.

Sequencing of the pre-strip and sea-wall construction is being included in the mining schedule.

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<sup>1</sup> Reported as a range in accordance with Clause 18 of the 2004 JORC Code. Based on Geopeko internal mineral resource estimates

## **5, Metallurgical Processing**

The re-development project has the great advantage that the King Island Scheelite mine has a long history of successfully treating scheelite bearing materials from the Dolphin and Bold Head mines. KIS gave consideration to replicating the old mill circuit. However, the company's metallurgical consultants advised that to do so would result in a considerably higher capital and operating expenditure than can be achieved using modern processing technology that has been developed in the period since the old King Island Scheelite mill was designed and constructed.

It was accordingly decided to explore the development of an optimal milling circuit using modern processing technology. While all of the equipment being evaluated has a successful record in minerals processing applications, it has been necessary to undertake a detailed test program to demonstrate that the equipment can deliver design performance on the scheelite bearing materials likely to be produced from the new mine.

Test programs require meaningful tonnages of sample to demonstrate performance. KIS also needs to produce sufficient quantities of representative concentrate samples required by potential off-takers.

As previously reported, the metallurgical test program has taken considerably longer than anticipated. There are three main reasons for this.

- a) Logistical challenges in recovering large bulk samples and transporting these to testing facilities.
- b) Difficulty gaining access to testing facilities. The current resource sector boom is placing extraordinary demands on testing and assay companies, and KIS has encountered some difficulties in accessing these facilities.
- c) During the course of evaluation work new approaches have been identified that require additional evaluation work. An example is Koppern High Pressure Grinding Rolls which offer potential to achieve better liberation of scheelite particles at significantly lower cost and less slimes generation than the more traditional technologies.

A final flowsheet has now been settled, and testwork now being undertaken is of a confirmatory nature. The current program will also produce the concentrate test samples required for marketing purposes.

A revised estimated schedule for metallurgical testwork has been prepared which shows that the test program is likely to be completed by the end of September 2006.

## **6. Infrastructure / Design / Procurement**

Design of crushing and screening plant has progressed sufficiently to allow refinement of capital and operating cost estimates.

A draft report on the tailings dam has been received and final dam designs are being completed. A final report is expected shortly.

The geotechnical investigation draft report for the proposed plant area has been received.

Bin and chute designs were revised following receipt of a report detailing the material handling characteristics of scheelite ore.

A report has been received in relation to power generation.

A revised capital cost estimate based upon 75 tonnes per hour wet processing capability has been completed.

Forecast cost estimates have been calculated for the construction program.

## **7. Environment, Approvals and Community**

The assessment of the KIS Development Proposal and Environmental Management Plan (DPEMP) by the King Island Council, State and Federal authorities continues. During May 2006, a supplement to the DPEMP (DPEMP supplement) was submitted to the Department of Primary Industries, Water and the Environment (DPIWE) and King Island Council.

The DPEMP supplement responded to a number of submissions received from King Island Council, State and Commonwealth agencies, and other interested parties.

## **8. Marketing**

Minerals marketing consultants Clark & Marron has been retained to prepare a report on the worldwide tungsten industry for inclusion in the Feasibility Study.

Discussions are continuing with potential off-takers. In the course of these discussions, opportunities to reduce costs across the supply chain from tungsten ore to APT (ammonium paratungstate – the most widely traded intermediate material in the tungsten industry) have been identified. While these opportunities require further test work confirmation, they appear to offer significant potential to improve metallurgical performance, reduce operating and capital costs, and to reduce project risk. Potential off-takers are actively assisting in these test work programs, and samples have been despatched to facilitate this work.

KIS considers that it is very much in shareholders interests to pursue these avenues, even though they could impose further delays on completion of the Final Feasibility Study.

Scheelite ore concentrate prices, as quoted on Metal Pages, rose 16% during June to US\$203 per mtu. The average price for the last 12 months was US\$200 per mtu, with a maximum of US\$267 and minimum of US\$132 per mtu. One mtu is equivalent to 10kg.

## **9. Final Feasibility Study**

Current planning suggests that completion of the FFS will now occur by the end of September 2006.

The King Island Scheelite re-development project is being affected by the nation-wide demand for mining services in Australia at the moment, and also by the high cost of diesel fuel which impacts on the costs of operating the mining fleet and generating power on the island.

## **10. Financing**

KIS is engaged in discussions with parties interested in assisting with the financing of the project. Finalisation of financing arrangements necessarily requires the completion of the FFS, the granting of necessary permits, and finalisation of off-taker arrangements.

## **11. Exploration expenditure**

KIS incurred exploration and evaluation expenditure of \$1,239,000 during the quarter ended 30 June 2006.

For further information please contact:

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Kate Kerrison

Kate Kerrison & Company

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*Information in this report that relates to Mineral Resources is based on information compiled by L A Newnham and R L Webster, who are a Fellow and Member respectively of The Australasian Institute of Mining and Metallurgy. L A Newnham is responsible for the geological interpretation and the collection and validation of data. R L Webster is responsible for Mineral Resource estimation and reporting. L A Newnham is a full-time employee of Newnham Exploration and Mining Services and R L Webster is a full-time employee of AMC Consultants Pty Ltd. Both have sufficient experience which is relevant to the style of mineralisation and type of deposit under consideration, and to the activity which they are undertaking, to qualify as a Competent Persons as defined in the 2004 Edition of the 'Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves'. Both consent to the inclusion in the report of the matters based on their information in the form and context in which it appears.*

Rule 5.3

# 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 June 2006

### Consolidated statement of cash flows

	Current quarter \$A'000	Year to date (12 months) \$A'000
<b>Cash flows related to operating activities</b>		
1.1 Receipts from product sales and related debtors	0	20
1.2 Payments for		
(a) exploration and evaluation	(1,239)	(3,633)
(b) development	-	-
(c) production	-	-
(d) administration	(295)	(659)
1.3 Dividends received	-	-
1.4 Interest and other items of a similar nature received	54	161
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>(1,480)</b>	<b>(4,111)</b>
<b>Cash flows related to investing activities</b>		
1.8 Payment for purchases of:		
(a)prospects	-	-
(b)equity investments	-	-
(c) other fixed assets	(2)	(2)
1.9 Proceeds from sale of:		
(a)prospects	-	-
(b)equity investments	-	-
(c)other fixed assets	-	4
1.10 Loans to other entities	-	-
1.11 Loans repaid by other entities	-	-
1.12 Other (provide details if material)	15	90
<b>Net investing cash flows</b>	<b>13</b>	<b>92</b>
1.13 Total operating and investing cash flows (carried forward)	<b>(1,467)</b>	<b>(4,019)</b>

+ See chapter 19 for defined terms.

1.13	Total operating and investing cash flows (brought forward)	(1,467)	(4,019)
	<b>Cash flows related to financing activities</b>		
1.14	Proceeds from issues of shares, options, etc.	-	5,280
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)	(10)	(203)
	<b>Net financing cash flows</b>	(10)	5,077
	<b>Net increase (decrease) in cash held</b>	(1,477)	1,058
1.20	Cash at beginning of quarter/year to date	4,799	2,264
1.21	Exchange rate adjustments to item 1.20		
1.22	<b>Cash at end of quarter</b>	3,322	3,322

**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 SA'000
1.23	Aggregate amount of payments to the parties included in item 1.2	52
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	27
	Directors' Fees	25

**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 SA'000	Amount used SA'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

		SA'000
4.1	Exploration and evaluation	353
4.2	Development	820
<b>Total</b>		1,173

### 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 SA'000	Previous quarter SA'000
5.1	Cash on hand and at bank	522	699
5.2	Deposits at call	2,800	4,100
5.3	Bank overdraft		
5.4	Other (provide details)		
<b>Total: cash at end of quarter (item 1.22)</b>		3,322	4,799

### 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%

+ 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 (c) Increase through end of restriction period	-	-		
	-	-		
	-	11,000,000		
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	-	<i>\$0.00001</i>	<i>5 years from issue date (4 July 2005)</i>
Second Tranche	562,500	-	<i>\$0.00001</i>	
7.8 Issued during quarter	-	-		
7.9 Exercised during quarter	-	-		
7.10 Expired during quarter	-	-		

+ See chapter 19 for defined terms.

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



Sign here:

Date: 31 July 2006

~~(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.

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+ See chapter 19 for defined terms.

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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+ See chapter 19 for defined terms.