



31 January 2007

**King Island Scheelite Ltd**

**King Island Scheelite Mine Redevelopment Project**

**Report for the Quarter ended 31 December 2006**

**Mine Redevelopment**

On 3 October 2006, King Island Scheelite Ltd (KIS) announced the completion of the Feasibility Study on redeveloping the King Island scheelite mine, and the results of the study were summarised in September's quarterly report released 31 October 2006. Since that time, a number of significant steps have been undertaken to advance the project.

The approvals process has advanced significantly, with all major approvals either granted or issued in draft form by the relevant levels of government. The Tasmanian State Government has issued the conditions that will apply as part of granting the mining lease, and similarly the Federal Government's Department of Environment and Heritage has issued draft conditions that will apply for the approval to reclaim land in Grassy Bay. Formal approval of this is expected in the first quarter of 2007. The final major approval is that of the King Island Council, which must approve the Development Application before the project can proceed. Although this was approved by Council in December, the decision is subject to appeal by several parties including KIS. KIS believes that final approval will be granted in the first quarter of 2007.

During the December 2006 quarter, work proceeded with some of the more detailed aspects of project design. A significant amount of metallurgical test work was completed to assist in optimising process plant design, as well as site layout plans. Similarly, work has been undertaken in areas of pit design and mining practice. This work will position the company well, once financial close is achieved and construction can commence.

In December 2006, KIS raised \$4 million through an issue of equity in the company to professional or sophisticated investors. Additionally, a share purchase plan was announced that allows existing shareholders to purchase up to \$5,000 worth of shares in the company at the placement price. This additional funding will allow KIS to proceed through to financial close, while still undertaking the necessary work to prepare for construction.

**Proposed Joint Venture Agreement**

As previously announced, KIS entered into a non-binding letter of intent with Xiamen Tungsten Corp ("XTC"). This arrangement intends that XTC will contribute the necessary capital to re-develop the King Island scheelite mine, thereby earning a 50% share in ongoing operating costs and concentrate produced. During the December quarter, exchange visits were held between KIS and XTC which furthered discussions on technical and commercial terms of the proposed joint venture. XTC and its advisors are currently reviewing detailed

technical and commercial information supplied by KIS, with the aim of finalising arrangements during the first quarter of 2007.

Given XTC's proven technological leadership in tungsten processing, there may well be scope for project enhancement after the review.

### **Chief Executive Officer**

On 26 September 2006, KIS announced the appointment of Mr Nick Lambeth as Chief Executive Officer.

Prior to joining KIS, Nick has spent the 24 years working with Rio Tinto at various businesses in Australia and overseas. During that time he spent eight years with Lihir Gold Limited, having joined that organisation during the construction phase. Once the project entered production he also had substantial involvement in operational issues, as well as his primary role of Chief Financial Officer.

After eight years with Lihir, including living on the island, he was appointed the Global Project Manager for Rio Tinto to implement the requirements of the Sarbanes Oxley Act. He led a project team, with the project winding down and due for completion at the end of 2006.

### **Outlook**

KIS expects that all major approvals will become final during the first quarter of 2007. At the same time, the finalisation of the joint venture with XTC is expected to be concluded. These events will then allow KIS to move to the construction phase, commencing with detailed engineering and pre-ordering of the longer lead time items. It is expected that the construction phase will then be over a period of approximately 12 months.

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")

**31 December 2006**

#### 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	(529)	(1,311)
(b) development	-	-
(c) production	-	-
(d) administration	(490)	(802)
1.3 Dividends received	-	-
1.4 Interest and other items of a similar nature received	36	78
1.5 Interest and other costs of finance paid	-	-
1.6 Income taxes paid	-	-
1.7 Other (Research & Development Grant)	109	109
<b>Net Operating Cash Flows</b>	<b>(874)</b>	<b>(1,926)</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	-	-
1.10 Loans to other entities	-	-
1.11 Loans repaid by other entities	-	-
1.12 Other (provide details if material)	-	60
<b>Net investing cash flows</b>	<b>(2)</b>	<b>58</b>
1.13 Total operating and investing cash flows (carried forward)	<b>(876)</b>	<b>(1,868)</b>
1.13 Total operating and investing cash flows (brought forward)	<b>(876)</b>	<b>(1,868)</b>

+ See chapter 19 for defined terms.

<b>Cash flows related to financing activities</b>			
1.14	Proceeds from issues of shares, options, etc.	3,497	3,497
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)	(153)	(153)
	<b>Net financing cash flows</b>	<b>3,344</b>	<b>3,344</b>
<b>Net increase (decrease) in cash held</b>		<b>2,468</b>	<b>1,476</b>
1.20	Cash at beginning of quarter/year to date	2,331	3,323
1.21	Exchange rate adjustments to item 1.20		
1.22	<b>Cash at end of quarter</b>	<b>4,799</b>	<b>4,799</b>

**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	81
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

41

Directors' Fees

40

**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	115
4.2	Development	1,615
<b>Total</b>		<b>1,730</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	279	111
5.2	Deposits at call	4,520	2,220
5.3	Bank overdraft		
5.4	Other (provide details)		
<b>Total: cash at end of quarter (item 1.22)</b>		<b>4,799</b>	<b>2,331</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 (renewal 18/12/2006 extension applied for, but not yet granted)	100%	100%
	Exploration Licence 19/2001 at Grassy, King Island (91 sq kms)	Ownership of mining tenement 1 (renewal 4/12/2006 extension and reduction applied for, but not yet granted)	100%	100%
	Exploration Licence 16/2002 at Grassy, King Island (18 sq kms)	Ownership of mining tenement renewal (renewal 09/05/2008)	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>	39,149,390	39,149,390		
7.4 Changes during quarter (a) Increases through issues (b) Decreases through returns of capital, buy-backs	3,179,364	3,179,364	\$1.10	\$1.10
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>				

+ See chapter 19 for defined terms.

7.12	<b>Unsecured notes (totals only)</b>		
	<b>Closing Performance Shares (issued 30 May 2005)</b>		
	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 2007  
(~~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.

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+ See chapter 19 for defined terms.

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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