

**King Island Scheelite Limited and its controlled entities**  
**ABN 40 004 681 734**

31 December 2006

**Results for announcement to the market:**

	<b>King Island Scheelite Group</b>		
	<b>Half-year ended 31 December</b>		
	<b>2006</b>	2005	Movement
	<b>\$000</b>	\$000	%
Revenues from ordinary activities	-	-	-
Loss from ordinary activities after tax attributable to members	<b>(299)</b>	(484)	(38.2)
Net loss for the period attributable to members	<b>(299)</b>	(484)	(38.2)
Loss per share – basic (cents)	<b>(0.82)</b>	(1.56)	
Loss per share – diluted (cents)	<b>(0.82)</b>	(1.56)	

<b>Dividends</b>	Amount per security	Franked amount per security at 30%
2006 interim dividend	N/A	N/A
2005 final dividend paid	N/A	N/A
Record date for determining entitlements to the interim dividend:		N/A

Brief explanation of any figures reported above or other items of importance not previously reported to the market:

Refer to the Directors' Report included in the half-year financial report for explanations.

Discussion and Analysis of the results for the half-year ended 31 December 2006:

Refer to the Directors' Report included in the half-year financial report for commentary.

King Island Scheelite Limited and its controlled entities  
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INTERIM FINANCIAL REPORT

31 DECEMBER 2006

## **DIRECTORS' REPORT**

The directors present their report together with the consolidated financial report for the half year ended 31 December 2006 and the review report thereon.

### **Directors**

The directors of the Company at any time during or since the end of the half year are:

Anthony Haggarty	(Non-executive chairman)	Appointed 7 April 1998
Robin Morrill	(Non-executive director)	Appointed 24 May 2005
Andrew Plummer	(Non-executive director)	Appointed 1 March 2006
Raymond Soper	(Non-executive director)	Appointed 18 June 1992

### **Review of operations**

#### **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 includes certain conditions which are 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. The Company has now closed the share purchase plan and issued 408,611 ordinary fully paid shares for \$1.10 per share on 7 February 2007.

King Island Scheelife Limited and its controlled entities

## **DIRECTORS' REPORT (continued)**

### **Proposed Joint Venture Agreement**

In September 2006 King Island Scheelife Ltd (KIS) announced the signing of a non binding letter of intent (LOI) with Xiamen Tungsten Corporation (XTC), the purpose of which was to investigate the potential of KIS and XTC to enter into joint venture arrangements for the re-development of the King Island mine.

While the LOI contained provision for KIS to deal exclusively with XTC in progressing JV discussions, this requirement expired 6 January 2007. Since that time KIS has commenced discussions with other parties as financing alternatives to the proposed joint venture with XTC.

Following a lengthy period of discussion and exchange of information between KIS and XTC, a decision has been taken not to proceed to a joint venture relationship.

### **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.

### **Outlook**

The market for tungsten concentrate remains strong, with prices well supported. The King Island project remains well positioned to take advantage of these conditions.

KIS expects that all major approvals will become final during the first quarter of 2007. As the joint venture between KIS and XTC is not proceeding, KIS will now concentrate on progressing negotiations that are currently underway with other parties. KIS anticipates that these negotiations may extend well into 2007.

Following finalisation of approvals and commercial arrangements, KIS will be in a positive position 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 would be completed over a period of approximately 12 months.

### **Lead auditor's Independence Declaration under Section 307C of the Corporations Act 2001**

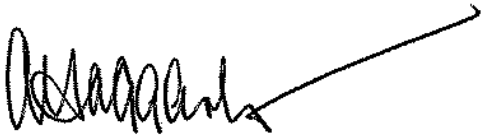
The lead auditor's independence declaration is set out on page 6 and forms part of the directors' report for the half year ended 31 December 2006.

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**Rounding off**

The Company is of a kind referred to in ASIC Class Order 98/100 dated 10 July 1998 and in accordance with that Class Order, amounts in the financial report and the Directors' Report have been rounded off to the nearest thousand dollars, unless otherwise stated.

Signed in accordance with a resolution of the Board of directors:

A handwritten signature in black ink, appearing to read 'AJ Haggarty', with a long, sweeping horizontal stroke extending to the right.

AJ Haggarty  
Chairman

Sydney

15 March 2007



**LEAD AUDITOR'S INDEPENDENCE DECLARATION under Section 307C of the Corporations Act 2001 to the directors of King Island Scheelite Limited:**

I declare that, to the best of my knowledge and belief, in relation to the review for the financial period ended 31 December 2006 there have been:

- (i) no contraventions of the auditor independence requirements as set out in the Corporations Act 2001 in relation to the review; and
- (ii) no contraventions of any applicable code of professional conduct in relation to the review.

*KPMG*

KPMG

Anthony Jones  
Partner

Sydney

15 March 2007

**CONSOLIDATED INTERIM INCOME STATEMENT**

For the six months ended 31 December

	31 Dec 2006 \$000	31 Dec 2005 \$000
Revenue	-	-
Administrative expenses	(486)	(312)
<b>Operating loss before financing costs</b>	<b>(486)</b>	<b>(312)</b>
Financial income	78	42
Financial expenses	-	-
<b>Net financing income</b>	<b>78</b>	<b>42</b>
Share of profit of associates accounted for using the equity method	-	-
<b>Loss before tax</b>	<b>(408)</b>	<b>(270)</b>
Income tax benefit	109	-
<b>Net loss after tax but before loss from discontinued operations</b>	<b>-</b>	<b>(270)</b>
Loss from discontinued operations	-	(214)
<b>Net loss for the period</b>	<b>(299)</b>	<b>(484)</b>
Basic and diluted loss per share attributable to ordinary equity holders – continuing operations (cents)	<b>(0.82)</b>	<b>(0.87)</b>
Basic and diluted loss per share attributable to ordinary equity holders – discontinued operations (cents)	-	(0.69)

The consolidated interim income statement is to be read in conjunction with the notes to the interim financial report set out on pages 11 to 15.

**CONSOLIDATED INTERIM STATEMENT OF CHANGES IN EQUITY**

For the six months ended 31 December

Consolidated	Issued capital  \$000	Accumulated losses  \$000	Share option reserve  \$000	<b>Total Equity  \$000</b>
Balance at 1 July 2005	19,942	(10,380)	-	<b>9,562</b>
Shares issued	4,407	-	-	<b>4,407</b>
Net loss for the period	-	(484)	170	<b>(314)</b>
Balance at 31 December 2005	24,349	(10,864)	170	<b>13,655</b>
Balance at 1 July 2006	25,020	(11,188)	170	<b>14,002</b>
Shares issued	3,344	-	-	<b>3,344</b>
Net loss for the period	-	(299)	-	<b>(299)</b>
Balance at 31 December 2006	28,364	(11,487)	170	<b>17,047</b>

The consolidated interim statement of changes in equity is to be read in conjunction with the notes to the interim financial report set out on pages 11 to 15.



King Island Scheelife Limited and its controlled entities

**CONSOLIDATED INTERIM BALANCE SHEET**

As at 31 December 2006

	Note	31 Dec 2006 \$000	30 Jun 2006 \$000
<b>Current assets</b>			
Cash and cash equivalents		4,799	3,323
Trade and other receivables		22	61
Inventories		28	28
<b>Total current assets</b>		<b>4,849</b>	<b>3,412</b>
<b>Non-current assets</b>			
Trade and other receivables		39	39
Investments accounted for using the equity method	6	100	100
Property, plant and equipment		707	705
Intangible assets		13,859	12,616
Other assets		1	1
<b>Total non-current assets</b>		<b>14,706</b>	<b>13,461</b>
<b>Total assets</b>		<b>19,555</b>	<b>16,873</b>
<b>Current liabilities</b>			
Trade and other payables		222	436
Provisions		128	277
<b>Total current liabilities</b>		<b>350</b>	<b>713</b>
<b>Non-current liabilities</b>			
Deferred tax liabilities		2,158	2,158
<b>Total non-current liabilities</b>		<b>2,158</b>	<b>2,158</b>
<b>Total liabilities</b>		<b>2,508</b>	<b>2,871</b>
<b>Net assets</b>		<b>17,047</b>	<b>14,002</b>
<b>Equity</b>			
Issued capital	7	28,364	25,020
Reserves		170	170
Accumulated losses		(11,487)	(11,188)
<b>Total equity</b>		<b>17,047</b>	<b>14,002</b>

The consolidated interim balance sheet is to be read in conjunction with the notes to the half year report set out on pages 11 to 15.

**CONSOLIDATED INTERIM STATEMENT OF CASH FLOWS**

For the six months ended 31 December

	31 Dec 2006 \$000	31 Dec 2005 \$000
<b>Cash flows from operating activities</b>		
Cash receipts from customers – discontinued operations	-	20
Income tax received	109	-
Cash paid to suppliers and employees	(802)	(262)
Interest received	78	42
<b>Net cash used in operating activities</b>	<b>(615)</b>	<b>(200)</b>
<b>Cash flows from investing activities</b>		
Payments for purchase of property, plant and equipment	(2)	-
Proceeds from sale of property, plant and equipment	-	4
Proceeds from sale of investments	60	75
Payments for intangible assets	(1,311)	(1,512)
<b>Net cash used in investing activities</b>	<b>(1,253)</b>	<b>(1,433)</b>
<b>Cash flows from financing activities</b>		
Proceeds from the issue of share capital (net of capital raising costs)	3,344	4,388
<b>Net cash generated from financing activities</b>	<b>3,344</b>	<b>4,388</b>
Net increase in cash and cash equivalents	1,476	2,755
Cash and cash equivalents at 1 July	3,323	2,264
<b>Cash and cash equivalents at 31 December</b>	<b>4,799</b>	<b>5,019</b>

The consolidated interim statement of cash flows is to be read in conjunction with the notes to the interim financial report set out on pages 11 to 15.

## **NOTES TO THE CONSOLIDATED INTERIM FINANCIAL REPORT**

### **1. Reporting entity**

King Island Scheelite Limited (the "Company") is a company domiciled in Australia. The consolidated interim financial report of the Company as at and for the six months ended 31 December 2006 comprises the Company and its subsidiaries (together referred to as the "consolidated entity") and the consolidated entity's interest in associates.

The consolidated annual financial report of the consolidated entity as at and for the year ended 30 June 2006 is available upon request from the Company's registered office at Level 9, York Street Sydney, NSW 2000 or at [kingislandscheelite.com.au](http://kingislandscheelite.com.au)

### **2. Statement of compliance**

The consolidated interim financial report is a general purpose financial report which has been prepared in accordance with Australian Accounting Standards AASB 134 Interim Financial Reporting and the Corporations Act 2001.

The consolidated interim financial report does not include all of the information required for a full annual financial report, and should be read in conjunction with the consolidated annual financial report of the consolidated entity as at and for the year ended 30 June 2006.

This consolidated interim financial report was approved by the Board of Directors on 22 February 2007.

The consolidated entity is of a kind referred to in ASIC Class Order 98/100 dated 10 July 1998 and in accordance with the Class Order, amounts in the financial report have been rounded off to the nearest thousand dollars, unless otherwise stated.

### **3. Significant accounting policies**

Except as described below, the accounting policies applied by the consolidated entity in this consolidated interim financial report are the same as those applied by the consolidated entity in its consolidated financial report as at and for the year ended 30 June 2006.

In the prior financial year the consolidated entity adopted AASB 132 Financial Instruments: Disclosure and Presentation and AASB 139 Financial Instruments: Recognition and Measurement in accordance with the transitional rules of AASB 1. The adoption of these standards did not have an impact on the financial results of the consolidated entity.

### **4. Estimates**

The preparation of the interim financial report requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense. Actual results may differ from these estimates.

In preparing this consolidated interim financial report, the significant judgements made by management in applying the consolidated entity's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial report as at and for the year ended 30 June 2006.

**5. Segment reporting**

**Business and geographical segments**

The consolidated entity operates within the tungsten industry in Australia.

**6. Associates**

The consolidated entity has the following investments in associates:

Name	Ownership (%)		Share of net profit (\$000) 6 months ended	
	31 Dec 2006	31 Dec 2005	31 Dec 2006	31 Dec 2005
GTN Copper Technology Pty Ltd	36.3	36.3	-	-

**7. Issued Capital**

**Share Capital**

The consolidated entity recorded the following amounts within equity as a result of the issuance of ordinary shares.

As of December 2006	31 Dec 2006 \$000	30 Jun 2006 \$000
Ordinary shares	28,364	25,020

**7. Issued Capital (continued)**

<b>Fully paid ordinary</b>	Number of shares (000)
On issue at 1 July	<b>35,970</b>
Share issued – December 2006	<b>3,179</b>
On issue at 31 December 2006	<b>39,149</b>

**First Tranche Closing Performance  
Shares, fully paid**

On issue at 1 July 2006	<b>8,000</b>
On issue at 31 December 2006	<b>8,000</b>

**Second Tranche Closing Performance  
Shares, fully paid**

On issue at 1 July 2006	<b>8,000</b>
On issue at 31 December 2006	<b>8,000</b>

**Terms of closing performance shares**

The first tranche closing performance shares (CPS) issued to the vendors of Australian Tungsten Pty Ltd ACN 097 562 653 (“ATPL”) are exercisable at any time during the period commencing with the achievement of the funding and financing arrangements for the King Island Scheelite project (Financial Close). The second tranche CPS issued to the vendors of ATPL are exercisable at any time during the period after Financial Close and a minimum of 2 years from the date of issue.

Holders of CPS have:

- a) No right to any dividend prior to conversion into ordinary shares;
- b) The right to be notified by KIS of Financial Close within 5 business days of Financial Close;
- c) The right on redemption and the right on winding up or reduction of capital pari passu with any other closing performance shares and pari passu with ordinary shares of KIS to the repayment of the Initial subscription amount for the closing performance shares;
- d) No right to participate in the surplus profits or assets of KIS;
- e) The right to receive all notices, audited accounts and the reports which the holders of ordinary shares are entitled to receive;
- f) The right to attend any general meeting of KIS, but not to vote or to move or second any resolution or speak at any meeting except in respect of a resolution which directly affects any of the rights, privileges or conditions attaching to the closing performance shares or the exercise and enjoyment of such rights, privileges or conditions, in the event of which each closing performance share shall confer on its holder one vote on a show of hands and one vote on a poll;

## 7. Issued Capital (continued)

- g) Ordinary shares issued on conversion of the closing performance shares will rank pari passu in all respects with other ordinary shares of KIS. KIS will apply for quotation on the ASX of all ordinary shares of KIS issued on conversion of closing performance shares;
- h) If at any time the issued capital of KIS is reorganised within the meaning of Listing Rule 7.22, all rights of closing performance shares are to be changed in a manner consistent with the Corporations Act 2001 and the Listing Rules (including but not limited to Listing Rule 7.22) and to ensure the non-dilution of the ATPL shareholders;
- i) There are no participating entitlements inherent to participate in new issues of capital which may be offered to existing ordinary shareholders of KIS. Prior to any new pro rata issue of securities to existing ordinary shareholders, holders of closing performance shares will be notified by KIS;
- j) If KIS makes a bonus issue of ordinary shares pro rata to existing shareholders during the currency of closing performance shares, the number of ordinary share to be issued on conversion of closing performance shares will be adjusted in accordance with the Listing Rules;
- k). Closing performance shares are not transferable;
- l). If the closing performance shares have not been converted to ordinary shares within 5 years of the allotment of closing performance shares KIS must redeem the closing performance shares by paying to the shareholder an amount equal to the initial subscription amount; and
- m). Except to the extent required by law and which cannot be excluded, closing performance shares have no rights other than those expressly provided by these terms.

## 8. Dividends

No dividends were paid by the Company during the six months to 31 December 2006.

## 9. Contingencies

Details of contingent liabilities where the probability of future payments/receipts is not considered remote are set out below:

### **Security deposits**

The consolidated entity has certain commitments imposed by the New South Wales Department of Mineral Resources (DMR) to perform minimum exploration work on tenements. These obligations may be varied from time to time, are subject to approval and are expected to be fulfilled in the normal course of operations.

The consolidated entity has provided bank guarantees totalling \$38,740 (2005: \$23,840) to the DMR as mining security deposits.

### **Purchase price and royalty**

The consolidated entity has a commitment in respect of the acquisition of the King Island Scheelite tenements. If the decision to mine is taken by KIS, the amount payable by KIS to Rio Tinto Limited is \$250,000 plus an additional royalty totalling 1.5% of future gross revenue.

## 10. Income tax benefit

The consolidated entity's consolidated effective tax benefit rate in respect of continuing operations for the six month ended 31 December 2006 was 27 percent (for the year ended 30 June 2006: nil; for the six months ended 31 December 2005 nil). This change in effective tax rate was caused by a tax claim of \$109,000 made to the Australian Taxation Office in relation to research and development expenses.

## 11. Subsequent events

There has not arisen in the interval between the end of the half- year and the date of this review report any item, transaction or event of a material and unusual nature likely, in the opinion of the Directors of the Company, to affect significantly the operations of the consolidated entity, the results of those operations, or the state of affairs of the consolidated entity; excepting:

- (a) A joint venture agreement with XTC was not concluded within 3 months of KIS delivering the final feasibility study on or about 3 October 2006 and the non-binding letter of intent with XTC then permitted the Company to negotiate with other parties;
- (b) Following a lengthy period of discussion and exchange of information between KIS and XTC, a decision has been taken not to proceed to a joint venture relationship and KIS has commenced discussions with other parties; and
- (c) The Company closed the share purchase plan and issued 408,611 ordinary fully paid shares for \$1.10 per share on 7 February 2007.

King Island Scheelite Limited and its controlled entities

**Directors' declaration**

In the opinion of the directors of King Island Scheelite Limited ("the Company"):

1. the financial statements and notes set out in pages 7 to 15, are in accordance with the Corporations Act 2001 including:
  - (a) giving a true and fair view of the financial position of the consolidated entity as at 31 December 2006 and its performance, as represented by the results of its operations and cash flows for the half year ended on that date; and
  - (b) complying with Australian Accounting Standards AASB 134 Interim Financial Reporting and the Corporations Regulations 2001; and
2. there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

Sydney

15 March 2007.

Signed in accordance with a resolution of the directors:



AJ Haggarty

Chairman





## **Independent auditor's review report to the members of King Island Scheelite Limited**

### **Report on the Financial Report**

We have reviewed the accompanying interim financial report of King Island Scheelite Limited, which comprises the consolidated interim balance sheet as at 31 December 2006, income statement, statement of changes in equity and cash flow statement for the half-year ended on that date, a statement of accounting policies, other selected explanatory notes 1 to 11 and the directors' declaration set out on pages 7 to 16 of the consolidated entity comprising the company and the entities it controlled at the half-year's end or from time to time during the half-year.

### **Directors' Responsibility for the Financial Report**

The directors of the company are responsible for the preparation and fair presentation of the interim financial report in accordance with Australian Accounting Standard AASB 134 *Interim Financial Reporting* and the Corporations Act 2001. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and fair presentation of the interim financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

### **Auditor's Responsibility**

Our responsibility is to express an opinion on the interim financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of an Interim Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the interim financial report is not in accordance with the Corporations Act 2001 including: giving a true and fair view of the consolidated entity's financial position as at 31 December 2006 and its performance for the half-year ended on that date; and complying with Australian Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As auditor of King Island Scheelite Limited, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of an interim financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.



**Independent auditor's review report to the members of King Island Scheelite Limited (continued)**

**Conclusion**

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the interim financial report of King Island Scheelite Limited is not in accordance with the Corporations Act 2001, including:

- (a) giving a true and fair view of the consolidated entity's financial position as at 31 December 2006 and of its performance for the half-year ended on that date; and
- (b) complying with Australian Accounting Standard AASB 134 Interim Financial Reporting and the Corporations Regulations 2001

*KPMG*

KPMG

Anthony Jones  
Partner

Sydney

15 March 2007