



16 August 2007

ASX Announcement

King Island Scheelite Limited and Hunan Nonferrous Metals Corporation sign Principles of Agreement to re-develop the King Island scheelite mine

In March 2007 King Island Scheelite Ltd (KIS) and Hunan Nonferrous Metals Corp (HNC) announced that they had entered into a non-binding letter of intent, the purpose of which was to facilitate the re-development of the King Island scheelite mine (the Project) located on King Island, Tasmania. This letter of intent contemplated a number of ways in which KIS and HNC could form an ongoing relationship. Since that time, HNC has conducted an in-depth due diligence on both KIS and the Project.

KIS is pleased to announce that KIS and HNC have now signed a Principles of Agreement (POA) as the significant next step in developing the Project. Subject to finalising detailed legal documentation and obtaining shareholder and regulatory approval, the POA comprises the following:

- KIS to issue approximately 4.4 million new ordinary shares to HNC, which will be equivalent to approximately 10% of total issued KIS capital, at a price of A\$1.00 per share;
- One representative from HNC will be invited to join the KIS Board;
- An unincorporated Joint Venture to be formed between KIS and HNC, with each party having a 50% participation interest, to develop the Project and to share on-going operating and capital costs;
- HNC to provide debt funding to KIS to meet the KIS 50% contribution to the Project development cost. This loan to be on normal commercial terms with repayments of loan principal linked to a proportion of KIS's 50% share of net cash flow from the Project;
- KIS will manage construction and operation of the Project; and
- KIS and HNC will market the output from the Project on the most favourable terms available in the market.

KIS and HNC anticipate signing final documentation by the end of October 2007, with regulatory approvals expected soon after. The first tasks of construction, including detailed engineering, are expected to commence at this time.

Commenting on the signing of the POA the Chairman of KIS, Tony Haggarty, said "This agreement sees a very significant milestone for KIS and for the King Island Project. With the participation of HNC as both shareholder and Project investor, KIS has been able to secure a financially strong partner who is highly experienced in the tungsten industry. This strength and experience should prove to be a great advantage to both Project development and operation. Furthermore, with HNC supplying debt finance to KIS and with the associated repayments being matched to actual cash flows, our company will be able to avoid some of the restrictions associated with debt finance from more traditional sources. Both KIS and HNC look forward to an exciting future together developing the King Island Project to its full potential".

For additional information about King Island Scheelite please visit the company's website – www.kingislandscheelite.com.au

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