

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

31 December 2007

RESULTS FOR ANNOUNCEMENT TO THE MARKET:

| | Half-year ended 31 December | | |
|---|-----------------------------|---------------|---------------|
| | 2007 \$000 | 2006 \$000 | Movement % |
| Revenues from ordinary activities | - | - | - |
| Loss from ordinary activities after tax attributable to members | (396) | (299) | 32% |
| Net loss for the period attributable to members | (396) | (299) | 32% |
| Loss per share – basic (cents) | (1.0) | (0.8) | 25% |
| Loss per share – diluted (cents) | (1.0) | (0.8) | 25% |

| Dividends | Amount per security | Franked amount per security at 30% |
|---|---------------------|------------------------------------|
| 2007 interim dividend | - | - |
| 2006 final dividend paid | - | - |
| 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 2007:

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

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INTERIM FINANCIAL REPORT

31 DECEMBER 2007

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DIRECTORS' REPORT

The directors present their report together with the consolidated financial report for the half year ended 31 December 2007 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 Morritt | (Non-executive director) | Appointed 24 May 2005 |
| Andrew Plummer | (Non-executive director) | Appointed 1 March 2006 |

Review of operations

Mine Redevelopment

In August, the Company entered into a Principles of Agreement (POA) with Hunan Nonferrous Metals Corp (HNC) that outlined how the two companies intend to develop the King Island mine. The POA intended that a 50/50 joint venture will be established, and that HNC will provide debt funding to the Company to cover the Company's share of construction and developments costs.

In summary, this agreement anticipated that

- KIS will issue 4,450,000 ordinary shares to HNC, which will be equivalent to about 10% of issued KIS capital. This placement will be at the price of \$1.00 per share;
- one representative from HNC will join the KIS Board;
- HNC will contribute 50% of the construction and development costs of the Project;
- HNC will provide debt funding to KIS to fund the remaining 50% of the Project. This loan will attract an interest rate of 8%, and repayments of the loan will be matched to a proportion of KIS's share of the cash flow from the Project;
- an unincorporated Joint Venture will be created to share equally ongoing revenue, operating costs and post construction capital costs;
- KIS will manage the construction and operation of the Project; and
- output from the Project will be sold on the most favourable terms available in the market.

In December, this POA was converted into a series of formal agreements which both parties signed in Sydney on 19 December 2007. These agreements reflect the provisions of the POA. An unincorporated joint venture to be known as the Dolphin Joint Venture (DJV) has been established with subsidiaries of KIS and HNC as equal partners.

The agreements are subject to approval by the Australian Foreign Investment Review Board, the relevant Chinese authorities and KIS shareholders.

A number of the conditions precedent in the agreements have already been satisfied, and the Company expects that the remainder, such as receiving the approval of the Chinese Government and the Company's shareholders, will be satisfied in March 2008.

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DIRECTORS' REPORT (continued)

Construction of the Project will begin immediately thereafter with the commencement of detailed engineering and the procurement of long lead time items of processing plant equipment. Construction is estimated to take approximately 21 months, and first production of tungsten concentrate is planned for the fourth quarter of 2009.

As previously announced, the DJV partners anticipate spending a total of \$110 million in re-development of the mine, processing plant and associated infrastructure. The initial phase of the project will result in the production of an average of 300,000 mtu (1 mtu being 10 kg) of tungsten oxide (WO_3) per annum for 11 years, with production varying according to head grade mined from the pit. The potential for further project life beyond that period will be the subject of studies by the JV partners in the future. These studies will focus on known resources below the currently planned pit, as well as exploration targets that have been identified in the surrounding tenements currently held by KIS but which will form part of the DJV.

Feasibility Study Update

In September the Company announced an update to the Feasibility Study, which shows that total cash requirements up to and including commissioning are estimated at \$110 million.

The Company has continued to progress work on the technical aspects of the development of the project. A geotechnical drilling programme has been undertaken, with the aim of validating initial work undertaken on parameters used for preliminary engineering design work for the cut off wall and the process plant site foundations. The majority of this work has confirmed the initial results. The Company is continuing to refine design work on the cut off wall and believe that, whilst design wall changes may have some effect on its total cost to build, these refinements would not materially change the Feasibility Study assumptions already announced to the market.

Prior to the commencement of construction the Company is undertaking preparatory work on infrastructure, support services and procurement strategies. This includes discussions and preliminary negotiations with parties interested in providing accommodation, freight, fuel, power and other services. In addition, work has commenced on identifying the optimal sources, both within Australia and overseas, for the purchase of processing equipment.

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DIRECTORS' REPORT (continued)

Tungsten Market

In US dollar terms the tungsten concentrate market has softened slightly to levels around US\$180 – US\$190 per mtu (1 mtu = 10kg), with the Australian dollar lately trading in the range of 86 cents to 88 cents. Demand continues also to be healthy, with customers both within China and elsewhere keen to lock in major sources of long term supply, which the King Island project will be able to deliver.

Outlook

The Company anticipates finalizing the conditions precedent in the joint venture agreements in March, at which time the proceeds from the issue of shares to HNC will be received and funding commence for the re-development of the project.

After completion of the joint venture agreements \$4.45 million will be received from the issue of shares to HNC. In addition, the debt funding package to finance the Company's share of project construction costs will be available. This will comprise a primary facility of \$55 million to finance the Company's share of project construction costs, together with a cost overrun facility of \$8.25 million. HNC will directly fund its share of construction costs.

Construction activities will begin immediately thereafter, with ordering of long lead time items and detailed engineering being the first activities undertaken.

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

The lead auditor's independence declaration is set out on page 5 and forms part of the directors' report for the half year ended 31 December 2007.

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:

Chairman



AJ Haggarty

Sydney

4 March 2008



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 half year ended 31 December 2007 there has 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

4 March 2008

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CONSOLIDATED INTERIM INCOME STATEMENT

For the six months ended 31 December 2007

| | 31 Dec 2007 | 31 Dec 2006 |
|--|--------------------|-------------|
| | \$000 | \$000 |
| Revenue | - | - |
| Administrative expenses | (655) | (486) |
| Operating loss before financing costs | (655) | (486) |
| Financial income | 89 | 78 |
| Financial expenses | - | - |
| Net financing income | 89 | 78 |
| Loss before tax | (566) | (408) |
| Income tax benefit | 170 | 109 |
| Net loss for the period | (396) | (299) |
| Basic and diluted loss per share attributable to ordinary equity holders – continuing operations (cents) | (1.0) | (0.8) |

The consolidated interim income statement is to be read in conjunction with the notes to the interim financial report set out on pages 10 to 13.

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CONSOLIDATED INTERIM STATEMENT OF CHANGES IN EQUITY

For the six months ended 31 December

| Consolidated | Issued capital | Accumulated losses | Share option reserve | Total Equity |
|-----------------------------|-------------------|-----------------------|----------------------------|-------------------------|
| | \$000 | \$000 | | \$000 |
| Balance at 1 July 2006 | 25,020 | (11,188) | \$000 170 | 14,002 |
| Shares issued | 3,344 | - | - | 3,344 |
| Net loss for the period | - | (299) | - | (299) |
| Balance at 31 December 2006 | <u>28,364</u> | <u>(11,487)</u> | 170 | <u>17,047</u> |
| Balance at 1 July 2007 | 39,226 | (12,201) | 170 | 27,195 |
| Net loss for the period | - | (396) | - | (396) |
| Balance at 31 December 2007 | <u>39,226</u> | <u>(12,597)</u> | 170 | <u>26,799</u> |

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 10 to 13.

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CONSOLIDATED INTERIM BALANCE SHEET

As at 31 December 2007

| | Note | 31 Dec 2007 \$000 | 30 June 2007 \$000 |
|--------------------------------|------|----------------------|-----------------------|
| Current assets | | | |
| Cash and cash equivalents | | 1,585 | 3,835 |
| Trade and other receivables | | 68 | 99 |
| Inventories | | 28 | 28 |
| Total current assets | | 1,681 | 3,962 |
| Non-current assets | | | |
| Trade and other receivables | | - | 33 |
| Property, plant and equipment | | 822 | 819 |
| Intangible assets | | 27,371 | 25,810 |
| Other assets | | 1 | 1 |
| Total non-current assets | | 28,194 | 26,663 |
| Total assets | | 29,875 | 30,625 |
| Current liabilities | | | |
| Trade and other payables | | 163 | 305 |
| Provisions | | 32 | 74 |
| Total current liabilities | | 195 | 379 |
| Non-current liabilities | | | |
| Deferred tax liabilities | | 2,881 | 3,051 |
| Total non-current liabilities | | 2,881 | 3,051 |
| Total liabilities | | 3,076 | 3,430 |
| Net assets | | 26,799 | 27,195 |
| Equity | | | |
| Issued capital | 7 | 39,226 | 39,226 |
| Reserves | | 170 | 170 |
| Accumulated losses | | (12,597) | (12,201) |
| Total equity | | 26,799 | 27,195 |

The consolidated interim balance sheet is to be read in conjunction with the notes to the half year report set out on pages 10 to 13.

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CONSOLIDATED INTERIM STATEMENT OF CASH FLOWS
For the six months ended 31 December 2007

| | 31 Dec 2007 | 31 Dec 2006 |
|---|--------------------|-------------|
| | \$000 | \$000 |
| Cash flows from operating activities | | |
| Income tax received | - | 109 |
| Cash paid to suppliers and employees | (823) | (802) |
| Interest received | 89 | 78 |
| Net cash used in operating activities | (734) | (615) |
| Cash flows from investing activities | | |
| Payments for purchase of property, plant and equipment | (4) | (2) |
| Proceeds from sale of investments | - | 60 |
| Security deposit returned | 50 | - |
| Payments for intangible assets | (1,562) | (1,311) |
| Net cash used in investing activities | (1,516) | (1,253) |
| Cash flows from financing activities | | |
| Proceeds from the issue of share capital (net of capital raising costs) | - | 3,344 |
| Net cash generated from financing activities | - | 3,344 |
| Net (decrease)/increase in cash and cash equivalents | (2,250) | 1,476 |
| Cash and cash equivalents at 1 July | 3,835 | 3,323 |
| Cash and cash equivalents at 31 December | 1,585 | 4,799 |

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 10 to 13.

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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 2007 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 2007 is available upon request from the Company's registered office at Level 9, York Street Sydney, NSW 2000 or at www.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 2007.

This consolidated interim financial report was approved by the Board of Directors on 20 February 2008.

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 2007.

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 2007.

5. Segment reporting

Business and geographical segments

The consolidated entity operates within the tungsten industry in Australia.

6. Issued Capital

Share Capital

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

| | 31 Dec 2007 | 30 June 2007 |
|---|--------------------|---------------------------|
| | \$000 | \$000 |
| As of December 2007 | | |
| Ordinary shares | 39,226 | 39,226 |
| Fully paid ordinary | | Number of shares (000) |
| On issue at 1 July 2007 | | 40,015 |
| On issue at 31 December 2007 | | 40,015 |
| First Tranche Closing Performance Shares, fully paid | | |
| On issue at 1 July 2007 | | 8,000 |
| On issue at 31 December 2007 | | 8,000 |
| Second Tranche Closing Performance Shares, fully paid | | |
| On issue at 1 July 2007 | | 8,000 |
| On issue at 31 December 2007 | | 8,000 |

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6. Issued Capital (continued)

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;
- 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.

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7. Dividends

No dividends were paid by the Company during the six months to 31 December 2007.

8. 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 \$Nil (2006: \$38,740) 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.

9. 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.

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 6 to 13, 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 2007 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

4 March 2008.

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

We have reviewed the accompanying interim financial report of King Island Scheelite Limited, which comprises the consolidated interim balance sheet as at 31 December 2007, 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 9 and the directors' declaration set out on pages 6 to 13 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.

(Continued overleaf)

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**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 2007 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

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Anthony Jones
Partner

Sydney

4 March 2008

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