

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

**31 December 2008**

**RESULTS FOR ANNOUNCEMENT TO THE MARKET**

|   | Half-year ended 31 December |               |               |
|---|-----------------------------|---------------|---------------|
|   | 2008<br>\$000               | 2007<br>\$000 | Movement<br>% |
| Revenues from ordinary activities                               | -                           | -             | -             |
| Loss from ordinary activities after tax attributable to members | (905)                       | (396)         | 129%          |
| Net loss for the period attributable to members                 | (905)                       | (396)         | 129%          |
| Loss per share – basic (cents)                                  | (1.7)                       | (1.0)         | 70%           |
| Loss per share – diluted (cents)                                | (1.7)                       | (1.0)         | 70%           |

|   | Amount per security | Franked amount per security at 30% |
|---|---------------------|------------------------------------|
| Dividends   |                     |                                    |
| 2009 interim dividend   | -                   | -                                  |
| 2008 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 2008:

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

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**RESULTS FOR ANNOUNCEMENT TO THE MARKET**

**DETAILS OF ASSOCIATES AND JOINT VENTURE ENTITIES**

Australian Tungsten Pty Ltd (a wholly owned subsidiary of King Island Scheelite Limited) and HNC (Australia) Scheelite Pty Ltd agreed to establish the Dolphin Joint Venture.

| Equity Accounted Associates and Joint Venture Entities | %Ownership Interest |                                 | Contribution to Net Loss |  |
|--|---------------------|---------------------------------|--------------------------|--|
|  | Current Period %    | Previous Corresponding Period % | Current Period A\$ '000  | Previous Corresponding Period A\$ '000 |
| Dolphin Joint Venture                                  | 50.0                | -                               | -                        | -                                      |

**Aggregate Share of Profits (Losses) of Associates and Joint Venture Entities**

**Groups' Share of Associates' and Joint Venture Entities':**

Profit(Loss) from ordinary activities before tax

Income tax on ordinary activities

**Profit(Loss) from ordinary activities after tax**

**Share of net profit(loss) of associates and joint venture entities**

|   | Current Period A\$ '000 | Previous Corresponding Period A\$ '000 |
|---|-------------------------|--|
| Profit(Loss) from ordinary activities before tax                          | -                       | -                                      |
| Income tax on ordinary activities   | -                       | -                                      |
| <b>Profit(Loss) from ordinary activities after tax</b>                    | -                       | -                                      |
| <b>Share of net profit(loss) of associates and joint venture entities</b> | -                       | -                                      |

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INTERIM FINANCIAL REPORT

31 DECEMBER 2008

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## King Island Scheelite Limited and its controlled entities

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### DIRECTORS' REPORT

The directors present their report together with the consolidated financial report for the half year ended 31 December 2008 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      |
| ZENG Shao Xiong          | (Non-executive director)       | Appointed 16 September 2008 |
| FAN Xue Qiang (Jeff FAN) | (Alternate to ZENG Shao Xiong) | Appointed 16 September 2008 |

#### Review of operations

##### Financial position

As a direct result of issuing 4,450,000 ordinary shares in September 2009 to Hunan Nonferrous Metals Corporation (HNC) at \$1.00 per share, the cash position improved substantially during the half year ended 31 December 2008.

The Company also concluded a joint venture agreement with HNC to redevelop the King Island Scheelite Mine in September 2009. The 50/50 unincorporated joint venture known as the Dolphin Joint Venture (DJV) has been established, whereby;

- Each participant contributes 50% of construction, development and operating costs;
- Each participant receives 50% of the output;
- HNC will provide debt funding for the Company's share of costs. This loan will attract an interest rate of 8%, and repayments based on 60% of the Company's free cash flow from the Project;
- The Company will manage the construction and operation of the Project; and
- The Company share of output will be sold on the most favourable terms available, however, HNC has a right of first refusal with respect to any product sold.

With cash reserves at 31 December 2008 of \$4.3 million and funding arrangements in place for the Dolphin Joint Venture Project, the current operations of the Company are adequately funded.

##### Management changes

Simon Bird was appointed Chief Executive Officer, effective 1 January 2009, following the resignation of Nick Lambeth, effective 31 December 2008. His listed company experience and strong financial management skills will be an asset in implementing the Company strategies going forward.

Lindsay Newnham fills the role of Project Manager for the DJV to redevelop the Grassy mine on King Island. Lindsay's appointment was effective 1 January 2009 and he is an experienced geologist with a strong track record in leading the metalliferous mine developments in Tasmania.

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### DIRECTORS' REPORT (continued)

#### Dolphin Joint Venture (DJV)

Finalising conditions subsequent in order to conclude the joint venture and funding arrangements with HNC have been the main focus during this half. The necessary development applications, including environmental approvals for the redevelopment of the tungsten deposit on King Island, are now in place. Since the half year end further progress includes:

- Established a DJV bank account and cash call process;
- Established the DJV Committee and agreed an overall work program for the first half of 2009;
- Commencing a program of geotechnical drilling designed to further test ground conditions, both in the eastern end of the planned open-cut pit and beneath the cut-off wall; and
- Initiating a review of the current mill flow sheet and further metallurgical test work with HNC.

#### Exploration Activities

The Company continues to assess other exploration potential and to that end has agreed to establish an unincorporated joint venture with Pleiades Resources Pty Ltd, a company related to Mr Morritt, to explore for tin and tungsten within its Balfour tenements in western Tasmania.

#### Tungsten Market

During the half year the AUD value of tungsten concentrates dropped approximately 14% due to lower USD prices (down 38%), offset by a weaker Australian dollar. During the month of January, however, USD prices have recovered some 10% which, when combined with a further weakening in the Australian dollar, has seen an improvement in AUD terms.

#### Outlook

With cash reserves of \$4.3 million, annual operating costs estimated at \$1.8 million and all future project costs being funded through the existing joint venture and loan agreements with HNC, the Company is well-placed to focus on the King Island mine redevelopment and future growth opportunities.

During the next six months, data from the geotechnical drilling program will be assessed to determine if any design modifications or further work is required. In parallel with this, we plan to complete further metallurgical test work in China, incorporating the latest scheelite recovery technology. Results of which, may lead to improvements in the current mill flow sheet design, and could have beneficial impacts on mill performance and costs. Once this work is completed and the feasibility study updated, the DJV Project will be well positioned to move quickly towards detailed engineering design and procurement of major long lead time items of equipment.

## **King Island Scheelite Limited and its controlled entities**

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

#### **Subsequent events**

Except for the following, 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:

#### **Options**

On 16 January 2009, the Company granted 4,500,000 Options for no consideration under the King Island Scheelite Limited Employee Share Option Plan. Each Option provides the right for the option holder to acquire one fully paid Share upon payment of each Exercise Price for each Share, as follows:

- i) 1,000,000 options (Tranche 1 Options) vesting on 1 January 2010, after continuous employment of one year and for an Exercise Price of A\$ 25 cents each;
- ii) 1,500,000 options (Tranche 2 Options) vesting on 1 January 2011, after continuous employment of two years and for an Exercise Price of A\$ 50 cents each ; and
- iii) 2,000,000 options (Tranche 3 Options) vesting on 1 January 2012 and after continuous employment of three years and for an Exercise Price of A\$1.00 each.

The Expiry Date of all these Options is 31 December 2013.

#### **Pleiades Balfour Tenements**

The Company continued to assess exploration potential and to that end on 9 February 2009 executed joint venture agreements with Pleiades Resources Pty Ltd (Pleiades) to explore for tin and tungsten within Pleiades Balfour Tenements in western Tasmania. This unincorporated joint venture is to conduct exploration work in relation to the tenements and, subject to a decision to mine, undertake development and mining operations.

The initial work program, to be funded by the Company involves a gravity survey costing \$180,000. This will provide the Company with a 35% interest in the joint venture. This program will be managed by Pleiades.

Subject to the results of the survey and agreement by both parties, the joint venture agreement allows for a further drilling program. This work estimated at \$550,000, will be funded by the Company and would take the Company's joint venture interest to 70%. This and future programs are to be managed by the Company.

The Company then has the option to acquire the remaining 30% joint venture interest for a consideration of \$1 million and the grant of a royalty.

The Company's Director Mr Morrith is also a director and shareholder of Pleiades.

#### **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 2008.

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**DIRECTORS' REPORT (continued)**

**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

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

AJ Haggarty

Sydney

2 March 2009

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***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 2008 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

2 March 2009

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**King Island Scheelite Limited and its controlled entities**  
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**CONSOLIDATED INTERIM INCOME STATEMENT**

**For the six months ended 31 December 2008**

|  | <b>31 Dec 2008</b> | 31 Dec 2007 |
|--|--------------------|-------------|
|  | <b>\$000</b>       | \$000       |
| Revenue  | -                  | -           |
| Administrative expenses  | <b>(1,385)</b>     | (655)       |
| Operating loss before financing costs  | <b>(1,385)</b>     | (655)       |
| Financial income   | <b>93</b>          | 89          |
| Financial expenses   | -                  | -           |
| Net financing income   | <b>93</b>          | 89          |
| Loss before tax  | <b>(1,292)</b>     | (566)       |
| Income tax benefit   | <b>387</b>         | 170         |
| Net loss for the period  | <b>(905)</b>       | (396)       |
| Basic and diluted loss per share attributable to ordinary equity holders – continuing operations (cents) | <b>(1.7)</b>       | (1.0)       |

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 16.

**CONSOLIDATED INTERIM STATEMENT OF CHANGES IN EQUITY**

**For the six months ended 31 December 2008**

| Consolidated                | Issued capital | Accumulated losses | Share option reserve | <b>Total Equity</b>  |
|-----------------------------|----------------|--------------------|----------------------|----------------------|
|                             | \$000          | \$000              | \$000                | <b>\$000</b>         |
| Balance at 1 July 2007      | 39,226         | (12,201)           | 170                  | <b>27,195</b>        |
| Net loss for the period     | -              | (396)              | -                    | <b>(396)</b>         |
| Balance at 31 December 2007 | <u>39,226</u>  | <u>(12,597)</u>    | 170                  | <b><u>26,799</u></b> |
| Balance at 1 July 2008      | 39,226         | (12,611)           | 170                  | <b>26,785</b>        |
| Shares issued               | 4,729          | -                  | -                    | <b>4,729</b>         |
| Net loss for the period     | -              | (905)              | -                    | <b>(905)</b>         |
| Balance at 31 December 2008 | <u>43,955</u>  | <u>(13,516)</u>    | 170                  | <b><u>30,609</u></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 16.

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**King Island Scheelite Limited and its controlled entities**

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**CONSOLIDATED INTERIM BALANCE SHEET**

As at 31 December 2008

|                                | Note | 31 Dec 2008<br>\$000 | 30 June 2008<br>\$000 |
|--------------------------------|------|----------------------|-----------------------|
| <b>Current assets</b>          |      |                      |                       |
| Cash and cash equivalents      |      | 4,303                | 1,042                 |
| Other receivables              |      | 388                  | 69                    |
| Inventories                    |      | 28                   | 28                    |
| Total current assets           |      | <u>4,719</u>         | <u>1,139</u>          |
| <b>Non-current assets</b>      |      |                      |                       |
| Trade and other receivables    |      | -                    | -                     |
| Property, plant and equipment  |      | 414                  | 819                   |
| Intangible assets              |      | 28,121               | 27,838                |
| Total non-current assets       |      | <u>28,535</u>        | <u>28,657</u>         |
| <b>Total assets</b>            |      | <u>33,254</u>        | <u>29,796</u>         |
| <b>Current liabilities</b>     |      |                      |                       |
| Trade and other payables       |      | 317                  | 256                   |
| Provisions                     |      | -                    | 39                    |
| Total current liabilities      |      | <u>317</u>           | <u>295</u>            |
| <b>Non-current liabilities</b> |      |                      |                       |
| Deferred tax liabilities       |      | 2,328                | 2,716                 |
| Total non-current liabilities  |      | <u>2,328</u>         | <u>2,716</u>          |
| <b>Total liabilities</b>       |      | <u>2,645</u>         | <u>3,011</u>          |
| <b>Net assets</b>              |      | <u>30,609</u>        | <u>26,785</u>         |
| <b>Equity</b>                  |      |                      |                       |
| Issued capital                 | 7    | 43,955               | 39,226                |
| Reserves                       |      | 170                  | 170                   |
| Accumulated losses             |      | (13,516)             | (12,611)              |
| <b>Total equity</b>            |      | <u>30,609</u>        | <u>26,785</u>         |

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 16.

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**CONSOLIDATED INTERIM STATEMENT OF CASH FLOWS**  
**For the six months ended 31 December 2008**

|   | <b>31 Dec 2008</b> | 31 Dec 2007 |
|---|--------------------|-------------|
|   | <b>\$000</b>       | \$000       |
| Cash flows from operating activities                                    |                    |             |
| Cash paid to suppliers and employees                                    | <b>(995)</b>       | (823)       |
| Interest received   | <b>93</b>          | 89          |
| Net cash used in operating activities                                   | <b>(902)</b>       | (734)       |
| Cash flows from investing activities                                    |                    |             |
| Payments for purchase of property, plant and equipment                  | -                  | (4)         |
| Security deposit returned   | -                  | 50          |
| Loan to Joint Venture Partner   | <b>(283)</b>       | -           |
| Payments for intangible assets  | <b>(283)</b>       | (1,562)     |
| Net cash used in investing activities                                   | <b>(566)</b>       | (1,516)     |
| Cash flows from financing activities                                    |                    |             |
| Proceeds from the issue of share capital (net of capital raising costs) | <b>4,729</b>       | -           |
| Net cash generated from financing activities                            | <b>4,729</b>       | -           |
| Net increase/(decrease) in cash and cash equiva                         | <b>3,261</b>       | (2,250)     |
| Cash and cash equivalents at 1 July                                     | <b>1,042</b>       | 3,835       |
| Cash and cash equivalents at 31 December                                | <b>4,303</b>       | 1,585       |

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 16.

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## King Island Scheelite Limited and its controlled entities

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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 2008 comprises the Company and its subsidiaries (together referred to as the "consolidated entity") and the consolidated entity's interest in associates and jointly controlled entities.

The consolidated annual financial report of the consolidated entity as at and for the year ended 30 June 2008 is available upon request from the Company's registered office at Level 9, York Street Sydney, NSW 2000 or at [www.kingislandscheelite.com.au](http://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 2008.

This consolidated interim financial report was approved by the Board of Directors on 2 March 2009.

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 2008.

#### 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 2008.

5. Administrative Expenses

|   | 31 Dec 2008<br>\$000 | 30 June 2008<br>\$000 |
|---|----------------------|-----------------------|
| Loss on sale of land to Joint Venture Partner | 403                  | -                     |

6. Segment reporting

Business and geographical segments

The consolidated entity operates within the tungsten industry in Australia.

7. Disposal of Land

During the half year ended 31 December 2008, 50% of land with a total carrying value of \$807,000 was disposed to the Joint Venture Partner.

8. Issued Capital

Share Capital

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

|   | 31 Dec 2008<br>\$000 | 30 June 2008<br>\$000 |
|---|----------------------|-----------------------|
| As of December 2008                       |                      |                       |
| Fully paid ordinary shares                | 34,035               | 29,306                |
| First Tranche Closing Performance Shares  | 4,960                | 4,960                 |
| Second Tranche Closing Performance Shares | 4,960                | 4,960                 |
|   | <u>43,955</u>        | <u>39,226</u>         |

**8. Issued Capital (continued)**

|   | Number of<br>shares (000) | \$000  |
|---|---------------------------|--------|
| <b>Fully paid ordinary shares</b>   |                           |        |
| Balance 1 July 2007   | 40,015                    | 29,306 |
| Balance 31 December 2007  | 40,015                    | 29,306 |
| Balance 1 July 2008   | 40,015                    | 29,306 |
| 16 September 2008 share placement for \$1.00 cash per share   | 4,450                     | 4,450  |
| 17 September 2008 conversion of First and Second Tranche Closing Performance Shares to ordinary shares    | 16,000                    | -      |
| 2 October 2008 issue of ordinary shares in accordance with share purchase plan for \$0.307 cash per share | 909                       | 279    |
| 14 November 2008 conversion of First and Second Tranche Options for \$0.00001 cash per share              | 1,000                     | -      |
| Balance 31 December 2008  | 62,374                    | 34,035 |
| <b>First Tranche Closing Performance Shares, fully paid</b>   |                           |        |
| Balance 1 July 2007   | 8,000                     | 4,960  |
| Balance 31 December 2007  | 8,000                     | 4,960  |
| Balance 1 July 2008   | 8,000                     | 4,960  |
| 17 September 2008 converted into ordinary fully paid shares   | (8,000)                   | -      |
| Balance 31 December 2008  | -                         | 4,960  |
| <b>Second Tranche Closing Performance Shares, fully paid</b>  |                           |        |
| Balance 1 July 2007   | 8,000                     | 4,960  |
| Balance 31 December 2007  | 8,000                     | 4,960  |
| Balance 1 July 2008   | 8,000                     | 4,960  |
| 17 September 2008 converted into ordinary fully paid shares   | (8,000)                   | -      |
| On issue at 31 December 2008  | -                         | 4,960  |

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### **8. 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") were 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 were exercisable at any time during the period after Financial Close and a minimum of 2 years from the date of issue.

During the period, the independent Directors of the Company resolved that Financial Close occurred on 16 September 2008 upon the issue and allotment of 4,450,000 shares to Hunan Non Ferrous Metals Corporation Limited, with \$1.00 cash paid for each share.

On 16 September 2008, the holders of the CPS including a related party to Mr Morritt, made application to convert all first and second tranche CPS into ordinary fully paid shares. These CPS were converted on 17 September 2008.

### **9. Related Party Transactions**

On 17 September 2008, a related party to Mr Morritt converted 8,000,000 closing performance shares (CPS) into 8,000,000 ordinary fully paid shares issued by the Company. Further details of the terms of these CPS are included in Note 8.

#### **Transactions with Directors**

During the half year:

- a). MEM Resources Pty Ltd and XLX Pty Ltd rendered corporate consulting services, accounting business services, sub-let office space and provided sundry office support services to the Company. Mr. Haggarty is a director of MEM Resources Pty Ltd and XLX Pty Ltd. Mr Plummer is also a director of XLX Pty Ltd;
- b). Morritt Pty Ltd, a company related to Mr Morritt, also provided exploration consulting services to the Company; and
- c). HNC (Australia) Scheelite Pty Ltd, the joint venture partner to the Company's wholly owned subsidiary Australian Tungsten Pty Ltd, is responsible for 50% of direct costs incurred to maintain the King Island scheelite mine. Messrs Zeng and Fan are each associates of HNC (Australia) Scheelite Pty Ltd.

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### 9. Related Party Transactions (continued)

These charges were made to the Company on normal terms and conditions and in the ordinary course of business. Following are details of these charges:

|                             | Transaction Value 6 months ended |             | Balance Outstanding: (Payable) / Receivable |             |
|-----------------------------|----------------------------------|-------------|---|-------------|
|                             | 31 Dec 2008                      | 31 Dec 2007 | 31 Dec 2008                                 | 31 Dec 2007 |
|                             | \$                               | \$          | \$  | \$          |
| Office rent and supplies    | 1,942                            | 29,861      | -   | (5,887)     |
| Corporate consulting fees   | 42,700                           | -           | (32,317)                                    | -           |
| Exploration consulting fees | 23,000                           | -           | -   | -           |
| Joint Venture costs         | 282,619                          | -           | 282,619                                     | -           |
|                             | <b>350,261</b>                   | 29,861      | <b>250,302</b>                              | (5,887)     |

The office sub-rental agreement was terminated for the period 31 May 2008 to 31 December 2008.

Except for joint venture costs, all outstanding balances with these related parties were settled within one month of the balance sheet date. Joint venture costs were not settled at the date of this report and the balance is not secured.

### 10. Dividends

No dividends were paid by the Company during the six months to 31 December 2008.

### 11. Contingencies

There have been no material changes to contingencies since those disclosed in the 30 June 2008 Annual Report.

### 12. Subsequent events

Except for the following, 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:

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### 12. Subsequent events (continued)

#### Options

On 16 January 2009, the Company granted 4,500,000 Options for no consideration under the King Island Scheelite Limited Employee Share Option Plan. Each Option provides the right for the option holder to acquire one fully paid Share upon payment of each Exercise Price for each Share, as follows:

- i) 1,000,000 options (Tranche 1 Options) vesting on 1 January 2010, after continuous employment of one year and for an Exercise Price of A\$ 25 cents each;
- ii) 1,500,000 options (Tranche 2 Options) vesting on 1 January 2011, after continuous employment of two years and for an Exercise Price of A\$ 50 cents each ; and
- iii) 2,000,000 options (Tranche 3 Options) vesting on 1 January 2012 and after continuous employment of three years and for an Exercise Price of A\$1.00 each.

The Expiry Date of all these Options is 31 December 2013.

#### Pleiades Balfour Tenements

The Company continued to assess exploration potential and to that end on 9 February 2009 executed joint venture agreements with Pleiades Resources Pty Ltd (Pleiades) to explore for tin and tungsten within Pleiades Balfour Tenements in western Tasmania. This unincorporated joint venture is to conduct exploration work in relation to the tenements and, subject to a decision to mine, undertake development and mining operations.

The initial work program, to be funded by the Company involves a gravity survey costing \$180,000. This will provide the Company with a 35% interest in the joint venture. This program will be managed by Pleiades.

Subject to the results of the survey and agreement by both parties, the joint venture agreement allows for a further drilling program. This work estimated at \$550,000, will be funded by the Company and would take the Company's joint venture interest to 70%. This and future programs are to be managed by the Company.

The Company then has the option to acquire the remaining 30% joint venture interest for a consideration of \$1 million and the grant of a royalty.

The Company's Director Mr Morrith is also a director and shareholder of Pleiades.

**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 16, 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 2008 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

2 March 2009

Signed in accordance with a resolution of the directors:



AJ Haggarty

Chairman

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## **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 2008, income statement, statement of changes in equity and cash flow statement for the interim period ended on that date, a description of accounting policies and other explanatory notes 1 to 12 and the directors' declaration set out on page 17 of the Group comprising the company and the entities it controlled at the half-year's end or from time to time during the interim period.

#### *Directors' responsibility for the interim 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 Standards (including the Australian Accounting Interpretations) and the *Corporations Act 2001*. This responsibility includes establishing 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 a conclusion 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 Interim and Other Financial Reports 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 Group's financial position as at 31 December 2008 and its performance for the interim period 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 a 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.

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*Independence*

In conducting our review, we have complied with the independence requirements of the *Corporations Act 2001*.

*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 Group's financial position as at 31 December 2008 and of its performance for the interim period 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

2 March 2009

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## King Island Scheelite Limited and its controlled entities

ABN 40 004 681 734

### SHAREHOLDER INFORMATION

At 11 February 2009 issued capital was 62,373,758 ordinary fully paid shares held by 804 holders.

*20 Largest Holders of Ordinary Shares and their Holdings at 11 February 2009.*

|  | Ordinary Shares<br>Number | Proportion<br>Of Issued<br>Shares |
|--|---------------------------|-----------------------------------|
| 1 CATHERINE MORRITT                                | 13,555,000                | 21.7%                             |
| 2 ROBYN ELIZABETH GIBSON                           | 9,735,197                 | 15.6%                             |
| 3 ABEX RESOURCES AUSTRALIA PTY LTD                 | 4,990,962                 | 8.0%                              |
| 4 HUNAN NONFERROUS METALS CORPORATION<br>LIMITED   | 4,450,000                 | 7.1%                              |
| 5 THE GLEN RURAL PTY LTD                           | 3,994,504                 | 6.4%                              |
| 6 ANZ NOMINEES PTY LTD                             | 3,521,143                 | 5.7%                              |
| 7 CHRYSALIS INVESTMENTS PTY LTD                    | 2,249,922                 | 3.6%                              |
| 8 INVIA CUSTODIAN PTY LIMITED                      | 1,249,250                 | 2.0%                              |
| 9 SERLETT PTY LTD                                  | 965,208                   | 1.6%                              |
| 10 CHRIS ELLIS COAL SERVICES PTY LTD               | 932,775                   | 1.5%                              |
| 11 VICTOR JOHN PLUMMER                             | 818,668                   | 1.3%                              |
| 12 ANDREW HENDERSON PLUMMER                        | 744,146                   | 1.2%                              |
| 13 ROBERT SLADE FORBES                             | 716,286                   | 1.2%                              |
| 14 MOBUCK INVESTMENTS PTY LTD                      | 482,777                   | 0.8%                              |
| 15 VIEWADE PTY LIMITED                             | 474,090                   | 0.8%                              |
| 16 KERRY PETER HEYWOOD AND MAUREEN JEAN<br>HEYWOOD | 450,000                   | 0.7%                              |
| 17 FORBAR CUSTODIANS LIMITED                       | 400,000                   | 0.6%                              |
| 18 ROGER MASSY-GREENE                              | 365,267                   | 0.6%                              |
| 19 RIGI INVESTMENTS PTY LTD                        | 330,000                   | 0.5%                              |
| 20 OZHANSA PTY LIMITED                             | 312,454                   | 0.5%                              |
| Total top 20 Ordinary Shareholders                 | <u>50,737,649</u>         | <u>81.4%</u>                      |

*Distribution of Holders and Holdings at 30 January 2009*

|                  | Ordinary Shares<br>Number Of Holders | Shares Held       |
|------------------|--------------------------------------|-------------------|
| 1 - 1,000        | 329                                  | 72,279            |
| 1,001 - 5,000    | 165                                  | 516,048           |
| 5,001 - 10,000   | 108                                  | 880,762           |
| 10,001 - 100,000 | 188                                  | 6,646,956         |
| 100,001 and over | 40                                   | 54,257,713        |
| Total            | <u>830</u>                           | <u>62,373,758</u> |

Holders of less than a marketable  
 parcel:

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