

31st July 2009

KING ISLAND SCHEELITE LIMITED ("KIS")

REPORT FOR THE QUARTER ENDED 30 JUNE 2009

Key Points

- *Strong balance sheet maintained with \$3.75 million available cash.*
- *Funding in place to redevelop the King Island mine, through \$63.25 million debt facility.*
- *Working well with Chinese partners to progress redevelopment of the King Island mine.*
- *Team of professionals assembled for detailed design, programme and final feasibility.*
- *Encouraging commencement of Balfour Joint Venture exploration activities in Tasmania.*

Dolphin Joint Venture (DJV) – 50% interest

The joint venture with Hunan Nonferrous Metals Corporation (HNC) remains focused on the redevelopment of the tungsten deposit on King Island.

The redevelopment plan involves mining and processing 600,000 tonnes of ore per annum for the production of 3,000 tonnes of tungsten oxide per annum over a minimum of 10 years. Total development costs are currently estimated at \$110.00 million.

Principle achievements this quarter:

- Establishment of project office, shared by KIS and HNC, in Sydney CBD.
- Obtained Stage 1 budget approval from DJV Committee.
- Secured freehold land on the island necessary for the mine redevelopment.
- Completed geotechnical drilling programme and subsequent expert analysis of ground conditions beneath the proposed cut-off wall. Commenced assessment of proposed and alternate cut-off wall options.
- Review underway of a potential underground operation as an alternative or extension to the current open pit mine design.
- Metallurgical test work is continuing in China in conjunction with HNC. This work, led by an expert at a renowned Chinese state metallurgical research institute, has yielded promising results on recovery using whole ore flotation. These tests will also explore the potential of extracting tungsten from old tailings.
- These results and associated flow sheet changes are being used to redesign the mill and potentially reduce the required capital and operating cost of tungsten production.
- Available data on the Bold Head resource is being reviewed to establish potential for early processing of high grade ore from this deposit.
- Stage 2 (detailed design phase) expected to commence in the second quarter of FY10.

Balfour Joint Venture (BJV) – 35% interest

This joint venture with Pleiades Resources Pty Ltd (**PRPL**) was formed to explore for tin and tungsten within Balfour tenements in north west Tasmania.

This presents an exciting opportunity for KIS and is focused on exploration to identify a significant tin-tungsten resource in an area of historic high-grade copper mineralisation. The initial stage was to conduct a detailed ground based gravity survey of the area. This programme and subsequent geophysical analysis have now been completed with encouraging results.

A detailed drilling programme is now being finalised to assess the extent of the known tin-tungsten. The intention is to conduct this second stage under KIS management during spring 2009.

After funding these stages, the second stage being \$0.55 million, the KIS interest in the BJV would increase to 70%. KIS would then manage any future activities.

Advanced ore sorting technology

KIS has entered into a licence agreement with Applied Resolution Technologies to commercialise a patented laser ore sorting technology for the extraction of scheelite.

Tungsten Market

During the quarter the AUD value of tungsten concentrates dropped approximately 13%, primarily due to impact of a stronger Australian dollar against the US dollar. Since June, however, tungsten prices have increased by some 8%.

Financial

Having conserved cash during this quarter, KIS retains a healthy cash balance of \$3.75 million (Mar 09 \$4.11 million) and continues to control operating costs, thereby ensuring KIS remains well placed to fund future exploration, development and acquisition opportunities.

The DJV project remains fully funded through the existing joint venture arrangements with HNC. These arrangements include a \$63.25 million loan facility for the KIS 50% share of development costs.

Outlook

Funding and essential approvals are in place and key economic indicators remain favorable for the redevelopment of the King Island mine. KIS will continue to aggressively progress this project during the coming quarter and to that end will complete Stage 1 and begin planning Stage 2.

KIS intends to complete a preliminary BJV drilling programme to further assess the potential of a significant tin-tungsten resource in north west Tasmania.

We remain alert to other growth opportunities and strategic alliances which may present themselves during the current economic climate.

For further information see "Investor Update" presentation available on the company's website
www.kingislandscheelite.com.au .

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