



29<sup>th</sup> January 2010

KING ISLAND SCHEELITE LIMITED (KIS)

REPORT FOR THE QUARTER ENDED 31 DECEMBER 2009

Key Points

- *Retained \$3 million cash on hand, and a debt facility of \$63 million for the Dolphin Joint Venture project on King Island, Tasmania.*
- *Progressed Dolphin Joint Venture tungsten redevelopment plans with our Chinese partner.*
- *Completed first phase of Balfour Joint Venture tin & tungsten drilling campaign at Balfour, NW Tasmania.*

China Minmetals acquire a controlling stake in Hunan Nonferrous Metals Corporation (HNC)

During the quarter China Minmetals secured a 51% holding in our key shareholder and joint venture partner HNC. There is no direct impact on our company or projects. The new group combines China's leading base metals trader with China's largest lead-zinc and antimony producer; together they control nearly 50% of China's tungsten resources.

Dolphin Joint Venture (DJV) – KIS 50% interest

The DJV, with partner HNC, is focused on the redevelopment of the Dolphin and Bold Head tungsten resources on King Island, Tasmania.

The DJV redevelopment plan has to date involved a Dolphin-only open cut pit protected by cut-off and sea walls with an associated mill processing 600,000 tonnes of ore per annum for the production of 3,000 tonnes of tungsten oxide per annum over 10 years. Following work undertaken during the year these mining and milling parameters are under review and may be revised to reflect changed technical and commercial circumstances before proceeding to the next stage of development.

This quarter:

- Assessed results from extensive work conducted during the year, including:
  - Additional geotechnical drilling undertaken in the vicinity of the planned Dolphin cut-off wall;
  - Successful whole-ore-flotation (WOF) trials completed on Dolphin ore in China;
  - Revised flow sheet and mill design to accommodate WOF, instead of predominantly gravity based circuits as contemplated in the original redevelopment plans; and
  - Confirmed JORC compliant Bold Head resource for possible inclusion in redevelopment plan.
- Considered the potential to develop a smaller open pit with minimal cut-off wall and sea wall requirements in conjunction with an underground operation. This, combined with a Bold Head redevelopment, is being assessed as a possible scenario for commercial development.

- As a result of the successful WOF trials, KIS is now confident of achieving excellent tungsten recoveries from the re-designed mill circuit.

Next quarter the DJV anticipates confirming the preferred option to redevelop the Dolphin and Bold Head resources.

### Balfour Joint Venture (BJV) – KIS 35% interest

The BJV, with partner Pleiades Resources Pty Ltd, is exploring for tin & tungsten in NW Tasmania. The BJV initially undertook a detailed ground-based gravity survey to better understand the spatial relationship of subjacent granite to historic tin & tungsten mineralisation in the area of Balfour.

Specimen Hill Prospect (tin & tungsten):

The first phase of a diamond drilling programme announced on 22<sup>nd</sup> October 2009 was completed during the quarter. Results were made available on 23<sup>rd</sup> December 2009. The drilling encountered a low density network of tin & tungsten mineralised veins. The best 1m composite values are as follows:

BJV002	2.2%	323715E	5429334N	WO <sub>3</sub>	71.0 – 72.0m
BJV003	1.0%	323771E	5429354N	Sn	159.0 – 160.0m

Following this encouraging first phase of drilling, a second phase is likely to be completed during the next quarter.

Roaring 41 South Prospect (possible magnetite-sulphide body):

This is a geophysical target; a magnetic and coincident gravity anomaly interpreted to have its magnetic source close to the surface. An exploration programme to test this target for a possible magnetite-sulphide body, or other high density body with coincident magnetic signature, is being developed by the BJV. The exploration programme, to include diamond drill testing of the geophysical target, is being managed by KIS. Work will commence once required approvals are secured.

After funding this programme totalling \$0.55 million, the KIS interest in the BJV will increase to 70%. KIS looks forward to providing results from this programme in due course.

### Tungsten Market

During the quarter the Australian dollar value of tungsten concentrates decreased by approximately 3%. However, since 31<sup>st</sup> December 2009 concentrate prices have returned to September 2009 levels.

### Financial

The cash balance is \$3 million after funding the first phase of BJV drilling and continued control of operating costs. KIS remains well placed to fund future exploration, development and acquisition opportunities.

The DJV project remains fully funded through existing arrangements with HNC. These arrangements include the \$63 million loan facility for a 50% share of KIS development costs.

### Outlook

The DJV anticipates confirming the preferred redevelopment option for the Dolphin and Bold Head resources during the next quarter.

KIS intends to undertake the second phase of the BJV Specimen Hill program during the next quarter.

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Subject to certain regulatory approvals KIS also intends drilling its BJV Roaring 41 South geophysical target next quarter.

KIS continues to assess future growth opportunities with its Chinese partner and with others.

For further information see the company's website [www.kingislandscheelite.com.au](http://www.kingislandscheelite.com.au) .

**Simon Bird**  
*Chief Executive Officer*  
**King Island Scheelite Limited**  
*Level 1, 101 Sussex Street*  
*Sydney NSW 2000*  
*Phone (02) 8622 1400*  
*Fax (02) 8622 1401*  
*Email [simon.bird@kingislandscheelite.com.au](mailto:simon.bird@kingislandscheelite.com.au)*

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