

29<sup>th</sup> OCTOBER 2010



## KING ISLAND SCHEELITE LIMITED ("KIS")

### REPORT FOR THE QUARTER ENDED 30 SEPTEMBER 2010

#### Key points

- *To regain 100% ownership and control of the Dolphin project.*
- *Moved to 70% interest in Balfour project following successful drill results.*

Following a recent strategic review with China Minmetals, Hunan Nonferrous Metals Corporation (HNC) determined our project is not seen as a priority. This was impacting our ability to progress the development and deliver value to our shareholders. It was therefore in both parties best interest to terminate the joint venture and for KIS to regain control of the project.

HNC has agreed to transfer their 50% interest in the Dolphin project to KIS and forgive the loan associated with funding this project in exchange for a 2% royalty on future gross revenues capped at \$3.9 million. HNC will retain their substantial shareholding in KIS and position on the KIS Board of Directors.

Once the joint venture has been formally terminated (30<sup>th</sup> November) we will be well placed to source new strategic partners and funding for this project. The recent International Tungsten Industry Association meeting in Vienna provided an opportunity to affirm confidence in future demand for tungsten, assess the level of interest in our project, and reacquaint with key industry participants.

#### Dolphin Project

During the last year we have been able to progress this world class project with our partners as follows;

- Mine           Removed significant risks and doubled grades to 1.30% WO<sub>3</sub> with revised mine plan
- Metallurgy   Established 91% recovery from extensive whole-ore-flotation test work in China
- Processing   Designed and costed a 300,000tpa mill producing 3,300t of 65% WO<sub>3</sub> concentrate pa
- Financial     22% IRR is expected based on the remnant ore body alone

The potential to add down-plunge ore at Dolphin and redevelop the nearby Bold Head mine would substantially improve the economic return on this project, as the additional capital required would be minimal.

#### Balfour Project

This project involves a joint venture in which KIS now holds a 70% interest, with Pleiades Resources Pty Ltd holding 30%, to explore the Balfour tenements in NW Tasmania.

Following encouraging copper-gold intercepts at Roaring 41S, we are conducting down-hole magnetic surveys to better define the next drill targets.

Once this down-hole work has been reviewed, we anticipate drilling during the first quarter of next year a further three holes at this new discovery of magnetite-copper-gold mineralisation near Balfour.

### Markets

Tungsten prices in RMB and USD terms continued to improve this quarter with the USD price now above \$200 per mtu. The average price in AUD has increased 18% in the last 12 months.

### Financial

At 30 September the cash balance was \$2.33 million (Jun 10 \$2.62 million) and HNC loan balance \$1.82 million. The loan and accumulated interest will be forgiven on terminating the Dolphin Joint Venture.

### Outlook

The immediate priority is to secure funding and a new strategic partner for the Dolphin project. There are a number of options we are currently assessing.

Following a review of the down-hole magnetic results, we expect to undertake further drilling in early 2011 in the magnetite-copper-gold target at Roaring 41S.

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

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